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Application Proof of

Renrui Human Resources Technology Holdings Limited **(the “Company”)**

(a company incorporated in the Cayman Islands)

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IMPORTANT

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Renrui Human Resources Technology Holdings Limited

人瑞人才科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])

Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)

Number of [REDACTED] : [REDACTED] Shares (subject to reallocation and the [REDACTED])

Maximum [REDACTED] : HK\$[REDACTED] per Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value : US\$0.00005 per Share

Stock Code : [REDACTED]

Sole Sponsor



BNP PARIBAS

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The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for itself and on behalf of the [REDACTED]) and us on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED], [REDACTED] and, in any event, not later than [REDACTED], or such other date as agreed between parties. The [REDACTED] will be no more than HK\$[REDACTED] and is currently expected to be no less than HK\$[REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED], or such other date as agreed between parties between the [REDACTED] (for itself and on behalf of the [REDACTED]) and us, the [REDACTED] will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed “Risk Factors”.

The [REDACTED] (on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being offered under the [REDACTED] and/or the indicative [REDACTED] range below as stated in this document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), and our Company website at www.renruihr.com not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. Details of the arrangement will then be announced by us as soon as practicable. For further details, see the sections headed “Structure and Conditions of the [REDACTED]” and “How to Apply for [REDACTED]” in this document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (for themselves and on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Stock Exchange. For further details, see the section headed “[REDACTED] — [REDACTED] Arrangements and Expenses — [REDACTED] — Grounds for Termination” in this document.

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

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SUMMARY

OVERVIEW

We are a fast growing pioneer in HR solutions in China, operating on the largest scale in terms of number of flexible staffing employees hired by the end of 2018 and revenue generated from flexible staffing services in 2018, according to CIC. We focus on servicing renowned rising Chinese companies, including a large number of fast-growing new economy companies and industry-leading corporates as our recurring client base. We are the leading flexible staffing service provider with the only self-developed O2O recruitment platform in China as of June 30, 2019, according to CIC. We have a strong service network in China covering clients in more than 150 cities, and operate more than 20 offices as of the Latest Practicable Date. Our ability to identify and work closely with these renowned rising companies at an early stage has allowed us to grow together with them and achieve significant growth during the Track Record Period.

Our Business Model

Our operation adds value to our clients by providing HR solutions which improve the staffing procedure of our clients to deliver suitable contract employees in an efficient manner in order to achieve low turnover rate, while job applicants benefit from our innovative O2O approach that utilizes both online and offline resources with a goal of maximizing job applicants’ chances of getting hired. With our self-developed O2O recruitment platform, we are able to convert online traffic into an offline recruitment process, and offer result-oriented recruitment services with a high conversion rate and short lead time. Our platform attracts approximately 141,000 average monthly active users and more than 17,800 average daily visits for the six months ended June 30, 2019. Supported by this self-developed recruitment platform and an advanced integrated HR ecosystem, we can satisfy the demands of our key business operations, which are as follows:

Flexible Staffing - Our flexible staffing services enable our clients to utilize a dynamic mix of full-time employees of different skill sets hired by us, which allows them to staff up or down nimbly based on the workload at any given time regardless of industry, size of business and economic cycles. Our fast reaction in meeting various staffing demands of our clients allows our clients’ core employees to pursue more focused and complex challenges that are central to their business without being burdened by administrative processes.

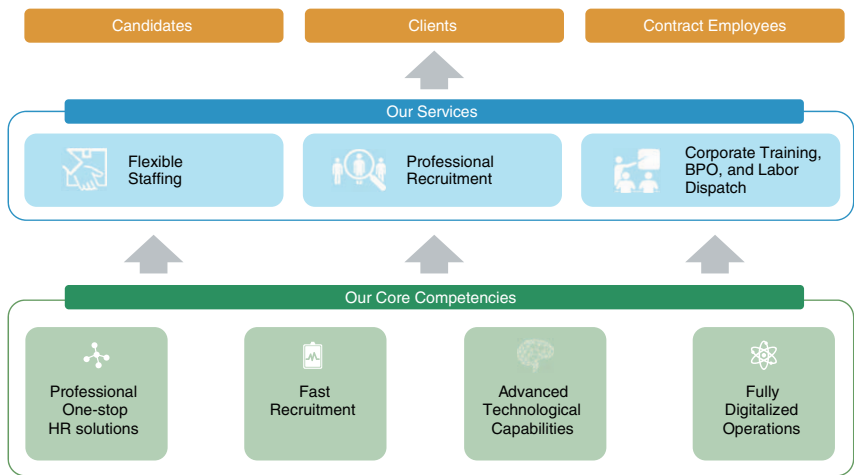
Professional Recruitment - Our professional recruitment services source candidates from our growing talent pool and attract other job applicants from word-of-mouth and offline recruitment events. Our clients can also subscribe to a membership which allows them to access those CVs on our database based on set criteria, create job postings and engage with potential job candidate through online chat, as well as set up follow-up interviews, so they have an option to tailor our services according to their needs.

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Other HR Solutions - We also provide other HR solutions which comprise (i) BPO services where clients can outsource an entire business operation unit to us in order to further streamline their administrative burden, including the staffing requirement and the obligation to supervise these contract employees, (ii) corporate training services, (iii) labor dispatch services where our clients remain responsible for the recruitment of these contract employees, while we charge a lower fee for managing and handling only the logistics and administrative matters of these contract employees, and (iv) other miscellaneous services.

During the Track Record Period, we generated all of our revenues by providing our HR solutions, typically in the forms of (i) flexible staffing services of various level positions, primarily of low to mid-level positions, by charging a premium along with all labor costs associated with the contract employees, (ii) professional recruitment services by charging a fixed fee based on the number of candidates successfully placed, or in the case of senior or executive level headhunting, by the seniority of the position and a percentage of the annual salary of the successfully placed job candidate, as well as paid membership-based candidate interview arrangement and job advertising through our Xiang Recruitment Platform, and (iii) other HR services comprising BPO services, labor dispatch services, tailored corporate training services and other miscellaneous services charged on a case-by-case basis. For further details on the different types of services, please refer to the section headed “Business — Our Business and Operations” in this document.

The following diagram illustrates our comprehensive services as supported by our core competencies:



SUMMARY

The table below shows the breakdown of revenue generated from various business segments during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	Revenue	% to	Revenue	% to	Revenue	% to	Revenue	% to	Revenue	% to
	RMB'000	total revenue	RMB'000	total revenue	RMB'000	total revenue	RMB'000	total revenue	RMB'000	total revenue
Flexible Staffing	317,354	84.3	706,232	91.0	1,514,950	93.7	617,457	93.7	1,023,532	95.0
Professional Recruitment:										
• Recruitment	44,671	11.9	51,291	6.6	62,434	3.9	27,832	4.2	27,824	2.6
• Paid Membership	1,963	0.5	7,354	1.0	5,935	0.4	2,532	0.4	2,398	0.2
Other HR Solutions										
• BPO	—	—	1,676	0.2	22,964	1.4	7,620	1.2	17,218	1.6
• Corporate Training	2,472	0.7	1,583	0.2	965	0.1	189	0.0	350	0.0
• Labor Dispatch	9,828	2.6	8,111	1.0	8,643	0.5	3,396	0.5	3,797	0.4
• Other miscellaneous services	—	—	—	—	—	—	—	—	2,242	0.2
Total	376,288	100.0	776,247	100.0	1,615,891	100.0	659,026	100.0	1,077,361	100.0

Our brand reputation and recognition among our clients has enabled us to enjoy significant historical growth as well as strong future prospects. We have established a great reputation for reliability, excellent service and high client satisfaction in the industry, according to CIC. Our total revenue growth from 2016 to 2018 represents a CAGR of 107.2%, which is substantially higher than the HR services industry revenue CAGR growth of 21.1% during the same period, while our total revenue grew from approximately RMB659.0 million for the six months ended June 30, 2018 to approximately RMB1,077.4 million for the six months ended June 30, 2019.

Our revenue increased significantly from RMB376.3 million for 2016, to RMB776.2 million for 2017, and further to RMB1,615.9 million for 2018, primarily due to (i) revenue generated from our flexible staffing growing rapidly from RMB317.4 million in 2016, to RMB706.2 million in 2017, and further to RMB1,515.0 million in 2018, as the number of flexible staffing employees deployed to flexible staffing projects increased significantly, as well as increase in the service premium charged per flexible staffing employee, (ii) revenue from our professional recruitment services also grew steadily throughout the Track Record Period, from RMB46.6 million in 2016, to RMB58.6 million in 2017, and further to RMB68.4 million in 2018, as the number of candidates recruited for our professional recruitment clients increased and at the same time, our professional recruitment services premium increased significantly, which is partially offset by a drop in revenue from paid membership from RMB7.4 million in 2017 to RMB5.9 million in 2018 due to fewer interviews arranged for our paid membership clients, and (iii) revenue from our other HR solutions increased significantly to RMB32.6 million in 2018 from RMB11.4 million in 2017 due to the introduction of BPO services in the last quarter of 2017. Our revenue also increased significantly from RMB659.0 million for the six months ended June 30, 2018 to RMB1,077.4 million for the six months ended June 30, 2019, primarily due to (i) the increase in our revenue generated from flexible staffing services, which grew

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from RMB617.5 million for the six months ended June 30, 2018 to RMB1,023.5 million for the six months ended June 30, 2019, due to more flexible staffing employees deployed to ongoing projects as well as increases in projects with key clients that had higher service premiums charged for positions on a per flexible staffing employee basis due to the nature of the position; and (ii) the increase in our revenue generated from BPO services, which grew from RMB7.6 million for the six months ended June 30, 2018 to RMB17.2 million for the six months ended June 30, 2019, as we undertook more BPO projects.

Our Clients and Suppliers

Our clients consist of corporates operating in a wide array of industries and of different sizes, particularly in the new economy companies which we deployed over 16,700 flexible staffing employees, accounted for approximately 83% of our total number of flexible staffing employees deployed as of June 30, 2019.

The table below sets forth a breakdown of the Company’s number of clients for its flexible staffing services by industry during the Track Record Period:

	Year ended December 31			Six months ended June 30
	2016	2017	2018	2019
	Number of Clients	Number of Clients	Number of Clients	Number of Clients
New Economy ⁽²⁾	155	223	237	218
Financial Institution	32	32	32	27
Real Estate	63	49	32	29
Others ⁽¹⁾	38	37	42	47
Total	288	341	343	321

Notes:

- (1) Others mainly include manufacturing, retail, logistics and construction.
- (2) New economy generally refers to industries that rely inherently on technological advancements, such as the internet, business services, hardware and software technologies, media and entertainment industries, and traditional industries that are being transformed as a result of innovations, such as retail, healthcare, finance, and new energy industries, according to CIC.

We generated approximately 65.3%, 81.4%, 81.7% and 82.7% of our total revenue for the years ended December 31, 2016, 2017, 2018 and the six months ended June 30, 2019, respectively, from our clients in the new economy industries in the PRC who created considerable demand for our services to meet their fast growing business. Our ability to provide comprehensive HR solutions and fast execution enabled us to position ourselves as one of the leading service providers to unicorn companies like ByteDance, Mobike, and Xiaohongshu. These unicorn companies (some of which are also in the new economy industries) contributed approximately 10.4%, 34.5%, 49.8% and 55.0% of our total revenue for

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the years ended December 31, 2016, 2017, 2018 and the six months ended June 30, 2019. We generated revenue of approximately RMB169.9 million, RMB342.7 million, RMB821.2 million and RMB615.6 million from our top five clients, representing approximately 45.2%, 44.2%, 50.8% and 57.1% of our total revenue for each of 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. We have maintained a renewal rate of 100% for clients with an aggregated transaction amount of above RMB1.0 million during the Track Record Period. We did not place material reliance on any specific client during the Track Record Period.

We source certain services from third-party suppliers and service providers, and they mainly include social insurance and housing provident fund processing agents, call center and technical support for BPO services, transportation services, other HR solutions providers for candidate sourcing, and subcontractors for flexible staffing or BPO services. We do not have any concentration risk with our suppliers. Purchases from our top five suppliers accounted for less than 30% of our total cost of revenue for each of 2016, 2017, 2018 and the six months ended June 30, 2019. Please refer to the section headed “Business — Our Service Providers and Suppliers” in this document for more information about our relationship with our major suppliers.

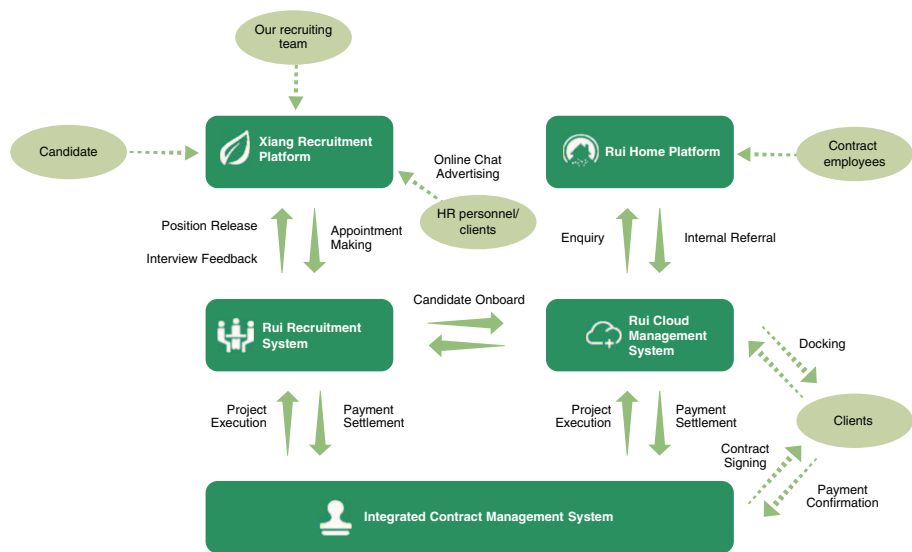
Our Integrated HR Ecosystem

Technology is our key to reinvent traditional business processes and operate at high efficiency. Our technology and data driven platform connects the different stakeholders in our business operations centrally synchronize the various resources we have and allows our clients to gain access to all our flexible staffing services through our system, from candidate-searching, to placement, and eventually to staff management and real-time information monitoring.

Our overall recruitment efficiency is improved by our innovative digitalized HR ecosystem. The average conversion rate from initial application to interview for our competitors ranges from around 5% to 15%, whereas our application to interview conversion rate is over 50%, according to CIC. Our conversion rate from offer to on-boarding is above 40%. Instead of competing using lower prices, we win clients with our ability to complete recruitment processes within 24 hours for our clients that have urgent staffing needs. This allows us to attract and expand our unicorn and large corporate and financial institution client base by optimizing and speeding up the hiring process while catering to client needs. Out of the 164 unicorn companies in China in the 2017 Development Report of Chinese Unicorn Companies (2017中國獨角獸企業發展報告), 69 or 42.1% of them were our clients during the Track Record Period, according to CIC.

SUMMARY

The diagram below illustrates how our platforms and systems work together and connect to each stakeholder in our business operations:



As we continue to expand our operation and attract more participants to our integrated HR ecosystem, the momentum created by a powerful network effect enables the continuous and incremental growth of our ecosystem. Our dedicated team of engineers and technicians continue to monitor, maintain and upgrade our proprietary systems and platforms to create an efficient feedback loop for adjustments and innovation. Please refer to the section headed “Business — Our Integrated HR Ecosystem” in this document for more information on our integrated HR Ecosystem.

OUR MARKET POSITION

The HR services industry in China mainly consists of HR outsourcing services, talent acquisition services and other HR services. Driven by favourable government support such as stimulus package and policies, the HR outsourcing services market in China has experienced substantial growth in recent years, according to CIC, which grew from approximately RMB87.6 billion in 2014 to approximately RMB178.5 billion in 2018, representing a CAGR of 19.5%, and is expected to reach approximately RMB426.7 billion by 2023, representing a CAGR of 19.0% between 2018 and 2023.

As the fastest growing segment within the HR outsourcing services, flexible staffing services involve staffing and managing the whole process of labor intensive activity in aim to relieve enterprises from the administrative burden and allowing them to focus on their core business, while managing their staffing needs flexibly during peaks and troughs. Such trend is particularly obvious for emerging new economy companies which often need to recruit a large number of candidates spreading across the nation in a short period of time, but lack the expertise to accomplish such initiatives internally. The continuous growth of these new economy companies generates substantial demand for large pool of qualified talents, which

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fuel the growth of the flexible staffing services. The year-end number of flexible staff serving the new economy in China increased from approximately 121,200 in 2014 to approximately 429,600 in 2018, representing a CAGR of 37.2%, and is estimated to reach approximately 1,294,200 in 2023, representing a CAGR of 24.7% from 2018 to 2023.

The HR services industry in China remains relatively fragmented with approximately 36,000 market participants as of June 30, 2019, and we are faced with intense competition from both domestic and international HR services providers, in particular, those in the flexible staffing services market. We ranked first among all flexible staffing services providers in China in terms of number of flexible staff hired by the end of 2018, with a market share of 1.5%, as well as the largest flexible staffing services provider in China in terms of revenue generated from this category of HR outsourcing service in 2018, with a market share of 2.5%, according to CIC. We believe we are well-positioned to remain at the forefront of the emerging flexible staffing HR solutions industry, and can expand our market share rapidly over time. Please refer to the section headed “Industry Overview” in this document for more information on our market landscape and position.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors: (i) we are a HR solutions pioneer providing the largest scale of flexible staffing services and other complementary HR services; (ii) we focus on servicing renowned and rising Chinese companies as their strategic HR solutions provider; (iii) we have a fully integrated HR ecosystem enabling close connection among our clients, employees and candidates; (iv) we rely on our technology and data driven platform to provide innovative solutions to our clients; and (v) we have an experienced senior management team with a proven record of driving prominent growth and profitability. Please refer to the section headed “Business — Our Strengths” in this document for further details.

OUR STRATEGIES

We intend to maintain and continuously strengthen our position as one of the leading providers of HR solutions in China. We plan to achieve this goal through the following business strategies: (i) increase our revenues by diversifying and expanding our client base; (ii) continue innovation to strengthen our system, platform, AI and data mining technologies; (iii) continue to expand market coverage in China and globally; (iv) expand our value-added services and improve our user experience; and (v) continue to strengthen our industry-leading position and brand recognition. Please refer to the section headed “Business — Our Strategies” in this document for further details.

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RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. Major risks we face include, but not limited to, the following: (i) our business is dependent on our clients in the fast-growing new economy industries maintaining their growth or staffing needs; (ii) we may not be able to rapidly source adequate candidates who meet the requirements of our clients; (iii) we may not be able to compete effectively, successfully and at reasonable cost against our existing and potential competitors; (iv) we may not be able to keep up with rapid changes in the HR services industry; (v) we may not be able to successfully manage our current and potential future growth; and (vi) substandard performance by our employees may adversely affect our service quality and reputation. Please refer to the section headed “Risk Factors” in this document for further details.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the [REDACTED] and assuming (i) no exercise of the [REDACTED]; (ii) no exercise of the options which have been or may be granted under the Share Option Schemes; and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme, Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, through Ming Feng, Wu Fu Min Feng and Lin Feng, respectively, will be entitled to control an aggregate of approximately [REDACTED]% of the issued share capital of our Company. The Founders have executed an acting in concert deed on January 18, 2019. As such, the Founders, Ming Feng, Wu Fu Min Feng and Lin Feng will together constitute a group of Controlling Shareholders within the meaning of the Listing Rules. Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules. Our Directors believe that we are able to operate independently from our Controlling Shareholders after completion of the [REDACTED]. Please refer to the section headed “Relationship with Our Controlling Shareholders” in this document for further details.

[REDACTED] INVESTMENTS

We underwent four rounds of [REDACTED] Investments with LC Fund V, L.P., LC Parallel Fund V, L.P., Macquarie Corporate Holdings Pty Limited, Ma’anshan Zijinghua Shareholding Investment Partnership Corporation (Limited Partnership), VMS Strategic Investment Fund, L.P. and North Sea Investment Company Limited. For further details, please refer to the section headed “History, Reorganization and Corporate Structure — [REDACTED] Investments” in this document.

SUMMARY

SHARE OPTION SCHEMES AND [REDACTED] SHARE AWARD SCHEME

We have granted share options under the [REDACTED] Share Option Schemes, and may grant additional share-based awards in the future pursuant to the [REDACTED] Share Option Scheme and the [REDACTED] Share Award Scheme. As of the Latest Practicable Date, we have granted [22,904,600] options under the [REDACTED] Share Option Schemes which are subject to the relevant vesting periods. The [REDACTED] account for approximately [REDACTED]% of our issued share capital immediately upon the completion of the [REDACTED], and assuming no exercise of the [REDACTED], such Shares will be diluted to:

- (1) approximately [REDACTED]% of our issued share capital if all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised (assuming (i) no exercise of the options which may be granted under the [REDACTED] Share Option Scheme and (ii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme);
- (2) approximately [REDACTED]% of our issued share capital if all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised and all the options which may be granted under the [REDACTED] Share Option Scheme are granted and exercised (assuming no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme); and
- (3) approximately [REDACTED]% of our issued share capital if all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised and all the options which may be granted under the [REDACTED] Share Option Scheme are granted and exercised, and all award shares which may be granted under the [REDACTED] Share Award Scheme are granted and new Shares are allotted and issued by our Company.

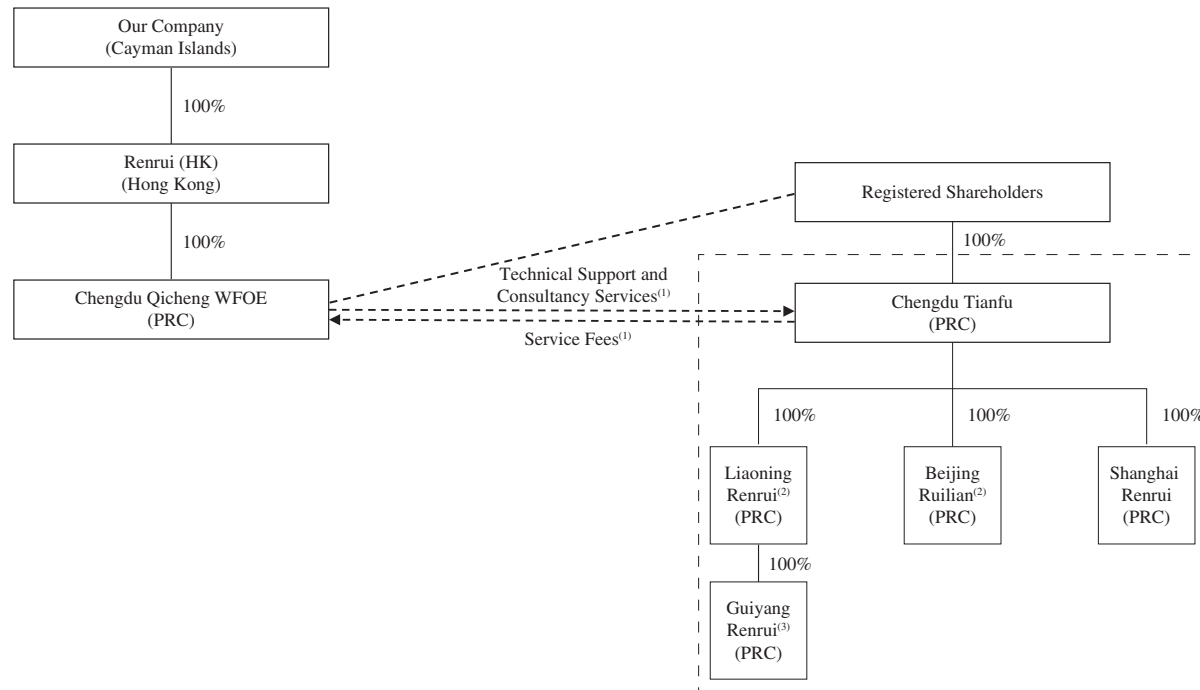
Please refer to the sections headed “Statutory and General Information — D. Share Option Schemes” and “Statutory and General Information — E. [REDACTED] Share Award Scheme” in Appendix IV to this document for further details.

CONTRACTUAL ARRANGEMENTS

Shanghai Renrui, Liaoning Renrui and Beijing Ruilian currently operate the Relevant Businesses and/or hold the VATS Licences. Based on the Old Negative List and the MIIT Consultations and as advised by our PRC Legal Advisor, the provision of the Relevant Businesses and the holding of VATS Licence(s) were subject to foreign investment restrictions under the then applicable PRC laws. Therefore, we could not hold any equity interest in Chengdu Tianfu (certain wholly-owned subsidiaries of which hold the VATS Licences) and/or its wholly-owned subsidiaries, including Shanghai Renrui, Liaoning Renrui and Beijing Ruilian. In order to enable us to control the entire equity interest in our Consolidated Affiliated Entities, we have adopted the Modified Contractual Arrangements to allow us to obtain the economic benefits of the Consolidated Affiliated Entities and consolidate their results of operations into those of ours. For more information on our reasons for entering into the Modified Contractual Arrangements, please refer to the section headed “Contractual Arrangements” in this document.

SUMMARY

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Modified Contractual Arrangements after completion of the Reorganization:



Notes:

“_____” denotes direct legal and beneficial ownership in the equity interest.

“-----►” denotes contractual relationship.

“-----” denotes control by Chengdu Qicheng WFOE over the Registered Shareholders and Chengdu Tianfu primarily through (i) powers of attorney to exercise all shareholders’ rights in Chengdu Tianfu, (ii) exclusive options to acquire all or part of the equity interests in and/or assets of Chengdu Tianfu and (iii) share pledges over the equity interests in Chengdu Tianfu.

- (1) Our Consolidated Affiliated Entities will pay services fees to Chengdu Qicheng WFOE in exchange for technical support and consultancy services. Please refer to the section headed “Contractual Arrangements — Summary of the material terms of the Modified Contractual Arrangements — Exclusive Services Agreement” in this document for further details.
- (2) We intend to deregister Liaoning Renrui and Beijing Ruilian in the event that all relevant contracts entered into by Liaoning Renrui and Beijing Ruilian have been transferred to Liaoning Corporate after Liaoning Corporate has obtained the VATS Call Center Licence. Please refer to the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document for further details.
- (3) Guiyang Renrui has submitted an application for the VATS Call Center Licence but has since terminated such application as a result of a change in our Group’s business plan. As confirmed by our Directors, we have not conducted any business through Guiyang Renrui since its establishment in February 2019 and up to the Latest Practicable Date and we do not intend to do so going forward, and we intend to deregister Guiyang Renrui in due course.

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For the risks relating to the Modified Contractual Arrangements, please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document.

In addition, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Modified Contractual Arrangements. For details, please refer to the section headed “Connected Transactions” in this document.

On June 30, 2019, the MOFCOM and the National Development and Reform Commission issued the New Negative List, which took effect on July 30, 2019 and superseded the Old Negative List. For more information on the New Negative List and our actions taken in response to the New Negative List, please refer to “ — Recent Developments” in this section below and the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, which should be read together with the consolidated financial information as set forth in Accountant’s Report in Appendix I to this document, including the related notes, as well as the information set forth in “Financial Information” in this document.

SUMMARY

Selected Information from the Consolidated Income Statements

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
Revenue	376,288	776,247	1,615,891	659,026	1,077,361
Cost of revenue	(335,221)	(688,499)	(1,460,935)	(601,011)	(961,435)
Gross profit	41,067	87,748	154,956	58,015	115,926
Selling and marketing expenses	(33,942)	(33,476)	(42,394)	(16,424)	(22,989)
Research and development expenses	(16,599)	(13,807)	(13,088)	(6,501)	(7,126)
Administrative expenses	(32,827)	(32,949)	(48,095)	(17,066)	(33,060)
Other income	2,016	6,578	9,409	5,529	5,367
Other (losses)/gains, net	(1,114)	1,404	(268)	(165)	181
Net impairment losses on financial assets	(1,010)	(2,141)	(2,993)	(1,768)	(455)
Operating (loss)/profit	(42,409)	13,357	57,527	21,620	57,844
Finance income	83	45	233	163	70
Finance costs	(2,947)	(2,960)	(1,781)	(1,002)	(2,746)
Fair value loss of hybrid financial instruments	(1,922)	(53,875)	(196,542)	(529)	(277,804)
(Loss)/profit before income tax	(47,195)	(43,433)	(140,563)	20,252	(222,636)
Income tax credit/(expense)	11,775	(572)	3,628	895	(6,566)
(Loss)/profit for the year attributable to equity holders of the Company	(35,420)	(44,005)	(136,935)	21,147	(229,202)
NON-HKFRS MEASURES					
Adjusted net (loss)/profit (unaudited)⁽¹⁾	(33,498)	9,870	67,690	21,676	58,476

Note:

- We define adjusted net (loss)/profit as net loss or profit for the year/period excluding fair value loss of hybrid financial instruments and [REDACTED] expenses. Adjusted net (loss)/profit for the year/period is not a measure required by or presented in accordance with HKFRSs. The use of adjusted net (loss)/profit for the year/period has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results or operations or financial condition as reported under HKFRS. For details, please refer to the section headed “Financial Information — Non-HKFRS Measures” in this document.

Our costs of revenue increased from RMB335.2 million for 2016, to RMB688.5 million for 2017, further to RMB1,460.9 million for 2018, and from RMB601.0 million for the six months ended June 30, 2018 to RMB961.4 million for the six months ended June 30, 2019. This was in line with our increase in revenue during the same periods as we continued to attract and serve more clients and scale up our operations.

At the beginning of the Track Record Period, our accumulated loss as of January 1, 2016 was RMB76.1 million. During the Track Record Period, we recorded an operating loss of RMB42.4 million in 2016, primarily due to significant expenses as a percentage of our revenue being incurred for selling and marketing and R&D as we were still in a ramp-up stage of development and incurred these expenses in an effort to grow and expand our business. In

SUMMARY

2017 and 2018, we recorded an operating profit of RMB13.4 million and RMB57.5 million, respectively. For the six months ended June 30, 2019, we recorded an operating profit of RMB57.8 million. Please refer to the section headed “Financial Information — Period-to-Period Comparison of Results of Operations” for further details.

However, due to the accounting treatment of our fair value loss of hybrid instruments from a loss of approximately RMB1.9 million in 2016 to a loss of approximately RMB53.9 million in 2017, further to a loss of approximately RMB196.5 million in 2018, and from a loss of approximately RMB0.5 million for the six months ended June 30, 2018 to a loss of approximately RMB277.8 million for the six months ended June 30, 2019, we had incurred net losses of approximately RMB35.4 million, RMB44.0 million, RMB136.9 million and RMB229.2 million, respectively, in 2016, 2017, 2018 and the six months ended June 30, 2019. Please refer to the section headed “Financial Information — Significant Accounting Policies” in this document for further details.

Non-HKFRS Measures

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented adjusted net (loss)/profit as an additional financial measure, which is not required by, nor presented in accordance with, HKFRS.

We believe that the non-HKFRS measure of adjusted net (loss)/profit facilitates comparison of our financial performance by eliminating the impact of items that we do not consider indicative of the actual performance of our business. We define our adjusted net (loss)/profit as net loss or profit for the year/period excluding fair value loss of hybrid financial instruments and [REDACTED] expenses. Adjusted net (loss)/profit eliminates the effect of our [REDACTED] expenses, which are not related to our ordinary course of business and are non-recurring in nature, and of non-cash fair value loss of hybrid financial instruments, which would cease to affect our consolidated financial statements after the [REDACTED]. We believe that this measure provides more useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management. Our presentation of adjusted net (loss)/profit may not be comparable to similarly titled measures presented by other companies. The use of this measure has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. Please refer to the section headed “Financial Information — Non-HKFRS Measures” in this document for further details.

SUMMARY

The following table reconciles our adjusted net (loss)/profit in each period of the Track Record Period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Reconciliation of loss for the year/period to adjusted net (loss)/profit					
(Loss)/profit for the year/period . .	(35,420)	(44,005)	(136,935)	21,147	(229,202)
Add:					
Fair value losses on hybrid financial instruments	1,922	53,875	196,542	529	277,804
[REDACTED] expenses	—	—	8,083	—	9,874
Adjusted net (loss)/profit (unaudited)	(33,498)	9,870	67,690	21,676	58,476

Gross Profit and Gross Profit Margin

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Flexible Staffing . . .	19,206	6.1	53,023	7.5	113,119	7.5	41,904	6.8	97,715	9.5
Professional										
Recruitment	12,834	27.5	27,046	46.1	31,053	45.4	12,422	40.9	11,197	37.0
Other HR Solutions .	9,024	73.4	7,679	67.5	10,784	33.1	3,689	32.9	7,014	29.7
Total	41,067	10.9	87,748	11.3	154,956	9.6	58,015	8.8	115,926	10.8

Our gross profit margins for both flexible staffing services and professional recruitment services had experienced significant improvement in 2017, largely due to a major system upgrade to our self-developed ecosystem in 2016, which revamped and integrated all our operation systems and platforms and substantially improved the efficiency and effectiveness of our operations, while the gross profit margin for other HR solutions are typically higher than those for the other services, primarily because we incur less direct cost for these services due to the nature of this business line. Our gross profit margin for other HR solutions experienced a significant decrease from the year ended December 31, 2017 to the year ended December 31, 2018, and further for the six months ended June 30, 2019 mainly due to the significant expansion in our BPO services which has a lower gross profit margin, as well as a significant drop in the revenue generated from corporate training services, both of which netted off the increase we saw in revenue generated by labor dispatch services in the same period and other miscellaneous services we provided in the first half of 2019. Our gross profit margin for flexible

SUMMARY

staffing services increased from the six months ended June 30, 2018 to the six months ended June 30, 2019, largely due to an increase in projects with higher gross margin, particularly those requiring IT personnel, in 2019, while the gross profit margin for professional recruitment services decreased from the six months ended June 30, 2018 to the six months ended June 30, 2019 due to increases in costs for sourcing candidates and for rent in tier one cities such as Beijing and Shanghai.

Selected Information from the Consolidated Balance Sheets

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Total non-current assets	66,079	54,023	93,404	109,383
Total current assets	106,314	178,666	379,793	402,367
Total assets	172,393	232,689	473,197	511,750
Total non-current liabilities	145,941	195,058	443,790	742,784
Total current liabilities	139,821	188,793	328,819	301,030
Total liabilities	285,762	383,851	772,609	1,043,814
Share capital	18	18	18	18
Other reserves	(1,830)	4,382	(6,933)	(10,383)
Accumulated losses	(111,557)	(155,562)	(292,497)	(521,699)
Total deficit	(113,369)	(151,162)	(299,412)	(532,064)
Total liabilities and deficit	172,393	232,689	473,197	511,750
Net current (liabilities)/assets	(33,507)	(10,127)	50,974	101,337

We had total deficit of RMB113.4 million, RMB151.2 million, RMB299.4 million, and RMB532.1 million as of December 31, 2016, 2017, 2018, and June 30, 2019, mainly because we had RMB125.4 million, RMB187.6 million, RMB402.2 million, and RMB684.9 million, respectively, of hybrid financial instruments, comprising convertible bonds and preferred shares, which are accounted for as financial liabilities at fair value on the consolidated balance sheets. Increases in fair value are recognized as fair value loss on the consolidated income statements. We incurred fair value losses on hybrid financial instruments of RMB1.9 million, RMB53.9 million, RMB196.5 million, and RMB277.8 million for the years ended December 31 2016, 2017, 2018, and the six months ended June 30, 2019, respectively, as the fair value of our hybrid financial instruments grew significantly as our Company's valuation increased due to our rapid business growth during the Track Record Period.

The fair value losses on hybrid financial instruments we incurred during the Track Record Period mainly resulted in our total deficit position during the Track Record Period. We expect that we will still recognize fair value losses on hybrid financial instruments subsequent to the

SUMMARY

Track Record Period and prior to the [REDACTED]. The convertible bonds were repaid in 2018 and, upon the [REDACTED], all Preferred Shares will be automatically converted into fully paid and non-assessable ordinary shares on a one-to-one basis, and will be re-designated from liabilities to equity. As a result, we expect the total deficit position will be turned into a net assets position, taking no account of any other trading results or other transactions of the Group entered into subsequent to June 30, 2019, and no further fair value losses on issued hybrid financial instruments will be incurred after [REDACTED]. For an illustration of the impact related to the conversion of Preferred Shares on our net tangible liabilities upon [REDACTED], please refer to Appendix II to this document.

We had net current liabilities of RMB33.5 million as of December 31, 2016, due in part to (i) our application of HKFRS 16 for our property leases, resulting in lease liabilities of RMB12.0 million recorded as current liabilities while the corresponding right-of-use assets were recorded under our property, plant and equipment of our non-current assets, (ii) our borrowings of RMB9.4 million and loan of RMB7.7 million from related parties, and (iii) our trade and other payables of RMB96.4 million and contract liabilities of RMB14.4 million representing non-refundable advance payments received from clients for services not yet provided and expected to be satisfied in the upcoming year, which were only partially offset by RMB91.1 million in trade and notes receivables and RMB12.8 million in cash and cash equivalents. Our net current liabilities then decreased to RMB10.1 million as of December 31, 2017 as a result of increases in our cash and cash equivalents and trade and notes receivables, which were only partially offset by an increase in our trade and other payables. These changes were the result of increases in our business scale as we expanded our footprint of flexible staffing services and one-stop HR solutions to cover more than 150 cities across China. As of December 31, 2018 and June 30, 2019, we had net current assets of RMB51.0 million and RMB101.3 million, respectively.

Selected Information from the Consolidated Statements of Cash Flows

	Year Ended December 31,			Six months ended June 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities before movements in working capital	(23,831)	34,201	81,122	71,991
Net cash (used in)/generated from operating activities	(16,874)	20,462	41,743	25,214
Net cash generated from/(used in) investing activities	8,772	(3,397)	(3,037)	(3,059)
Net cash used in financing activities	(7,302)	(8,599)	(19,547)	(8,318)
Net (decrease)/increase in cash and cash equivalents	(15,404)	8,428	19,159	13,837
Cash and cash equivalents at beginning of the year/period	28,232	12,828	21,256	40,341
Exchange losses on cash and cash equivalents	—	—	(74)	(26)
Cash and cash equivalents at end of the year/period	12,828	21,256	40,341	54,152

SUMMARY

Our cash outflows for operating activities is principally attributable to our operating expenses, which includes employee salaries, cash payments to our suppliers, and utilities and office expenses. During the Track Record Period, we recorded net cash used in operating activities for the year ended December 31, 2016 of RMB16.9 million, which was attributable to our loss before income tax of RMB47.2 million as adjusted by non-cash and non-operating items of RMB23.4 million and net working capital inflow of RMB7.0 million. This was mainly because we used cash in selling and marketing, and research and development activities for and after the revamp and integration of our operation systems and platform, but our revenue scale was still relatively small for the year ended December 31, 2016. For the years ended December 31, 2017 and 2018, and the six months ended June 30, 2019 we recorded net cash generated from operating activities of RMB20.5 million, RMB41.7 million and RMB25.2 million, respectively, mainly attributable to the significant increase in volume of HR services we provided to our clients, resulting in operating profit for the these periods. Please refer to the sections headed “Financial Information — Discussion of Certain Items from the Consolidated Balance Sheets” and “Financial Information — Liquidity and Capital Resources” for further details.

KEY FINANCIAL RATIOS

	Year Ended / As of December 31,			Six months ended/ As of June 30,	
	2016	2017	2018	2018	2019
Total revenue growth	N/A	106.3%	108.2%	N/A	63.5%
Adjusted net profit growth ⁽¹⁾	N/A	N/A	585.8%	N/A	169.8%
Gross margin ⁽²⁾	10.9%	11.3%	9.6%	8.8%	10.8%
Adjusted net margin ⁽³⁾ . . .	N/A	1.3%	4.2%	3.3%	5.4%
Current ratio (times) ⁽⁴⁾ . . .	0.8	0.9	1.2	N/A	1.3

Notes:

- (1) Adjusted net profit is defined as the net loss for the period excluding non-operational fair value loss of hybrid financial instrument and [REDACTED] expenses, where applicable. We had net losses for 2016, 2017, 2018 and the six months ended June 30, 2019.
- (2) Gross margin equals gross profit divided by revenue for the period and multiplied by 100%.
- (3) Adjusted net margin is calculated as the adjusted net (loss)/profit as a percentage of the revenue for the same period.
- (4) Current ratio is calculated as our current assets divided by our current liabilities at the end of each financial period.

Please refer to the section headed “Financial Information — Key Financial Ratios” for further details on these ratios.

SUMMARY

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to the [REDACTED] for the granting of the [REDACTED] of, and permission to deal in, our Shares in issue (including the Preferred Shares to be converted into the Shares upon the [REDACTED]), the [REDACTED] (including any additional Shares which may be issued pursuant to the exercise of the [REDACTED]), any Shares which may be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes and any Shares which may be issued upon the grant of the Awards under the [REDACTED] Share Award Scheme, on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2018, being approximately RMB1,615.9 million (equivalent to approximately HK\$1,890.9 million), which is over HK\$500.0 million; and (ii) our expected [REDACTED] at the time of the [REDACTED], which, based on the low-end of the indicative [REDACTED] range, exceeds HK\$[REDACTED] billion.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. Under the Articles of Association, our Company in general meeting may declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. As advised by our Cayman Islands legal advisor, a position of accumulated losses incurred from prior financial years does not necessarily restrict us from declaring and paying dividends to our Shareholders. Under Cayman Islands law, our Company may pay a dividend out of either our profits (whether retained earnings or profits from the current financial year) or share premium (which is the excess of the issue price of our Shares over their aggregate par value), provided that this would not result in our Company being unable to pay our debts as they fall due in the ordinary course of business. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account the dividend policy we intend to adopt, which includes factors such as our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors our Board deems to be appropriate. We did not declare any dividend for the years ended December 31, 2016, 2017, 2018 and the six months ended June 30, 2019 and we currently do not have any predetermined dividend payout ratio.

SUMMARY

[REDACTED] STATISTICS

All statistics in the following table are based on the assumptions that (i) the [REDACTED] has been completed and [REDACTED] Shares are issued pursuant to the [REDACTED] (assuming (i) no exercise of the [REDACTED]; (ii) no exercise of the options which have been or may be granted under the Share Option Schemes; (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme); and (iv) [REDACTED] Shares are issued and outstanding following the completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED]; (ii) no exercise of the options which have been or may be granted under the Share Option Schemes; and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme).

	Based on an [REDACTED] of HK\$[REDACTED]	Based on an [REDACTED] of HK\$[REDACTED]
[REDACTED] of our Shares ⁽¹⁾	[HK\$[REDACTED] million]	[HK\$[REDACTED] million]
Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) The calculation of market capitalization is based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED]; (ii) no exercise of the options which have been or may be granted under the Share Option Schemes; and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme).
- (2) The unaudited pro forma adjusted net tangible asset per Share as of June 30, 2019 is calculated after making the adjustments referred to in Appendix II to this document and on the basis that [REDACTED] Shares are expected to be in issue immediately upon the completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED]; (ii) no exercise of the options which have been or may be granted under the Share Option Schemes; and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme).

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model has remained unchanged and our revenue and cost structure has remained stable. We continued focusing on providing our HR solutions to clients, and have maintained steady business growth. Our unaudited revenue for the nine months ended September 30, 2019 was higher than for the same period in 2018, primarily due to the increase in our number of contract employees when comparing those periods. Based on our preliminary review of the Group’s operating data, with a specific focus on the Group’s key business segments:

- **Flexible staffing** - we had approximately 23,200 contract employees deployed to our flexible staffing services clients as of September 30, 2019.
- **Professional recruitment** - we had made approximately 31,300 placements for our recruitment services clients for the nine months ended September 30, 2019.

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- **BPO** - we had approximately 630 contract employees deployed to various BPO assignments as of September 30, 2019.

There has been no material adverse change in our market position or prospects.

On March 15, 2019, the National People’s Congress approved the 2019 FIL, which will come into effect on January 1, 2020. Although the 2019 FIL stipulates four forms of investment activities as foreign investment, the 2019 FIL does not explicitly stipulate contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisor, since the 2019 FIL has not explicitly prohibited or restricted contractual arrangements with respect to a foreign restricted business, and if there are no future promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of, or affecting the legality of, contractual arrangements, the validity of our Modified Contractual Arrangements will not be affected. Notwithstanding the above, there is no guarantee that our Modified Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future. Please refer to the sections headed “Risk Factors — Risks Relating to our Contractual Arrangements” and “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this document for the impact and potential consequence of the 2019 FIL on our Modified Contractual Arrangements.

On June 30, 2019, the MOFCOM and the National Development and Reform Commission issued the New Negative List, which took effect on July 30, 2019 and superseded the Old Negative List. The Old Negative List imposed a restriction on foreign ownership of not holding more than 50% in VATS (except for operating e-commerce business), while the New Negative List now expands the exception into the operation of e-commerce business, domestic multi-party communications, storage and forwarding services, and call centers. As advised by the PRC Legal Advisor, the effect of the New Negative List on our Group is that the restrictions on foreign ownership percentage to no more than 50% no longer apply to (i) call center services, i.e. the Client Service Representative BPO Services currently conducted by Liaoning Renrui and (ii) the holder of the VATS Call Center Licence, i.e. Beijing Ruilian. In order to narrowly tailor our VIE structure in accordance with the Stock Exchange’s listing decision HKEx-LD43-3 in light of the New Negative List, we have established Liaoning Corporate on September 10, 2019, and Liaoning Corporate has submitted the VATS Call Center Licence Application to the MIIT on September 23, 2019. As of the Latest Practicable Date, Liaoning Corporate’s VATS Call Center Licence Application is still being reviewed by the MIIT. In the event that Liaoning Corporate has obtained the VATS Call Center Licence, we intend to (i) transfer the Client Service Representative BPO Services conducted by Liaoning Renrui and the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement conducted by Beijing Ruilian, comprising all of the relevant contracts, to Liaoning Corporate, and (ii) then deregister Liaoning Renrui and Beijing Ruilian. Please refer to the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document for further details. However, as the MIIT has not provided any further guidance on, among others, the interpretation and implementation of the New Negative List and the impact of the New Negative List on the VATS Qualification Requirement, we cannot assure you that our VATS Call Center Licence Application will be approved at all.

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Please refer to the sections headed “Risk Factors — Risks Relating to our Contractual Arrangements — “We may not be able to meet the VATS Qualification Requirement and our plan to unwind the Modified Contractual Arrangements may be subject to certain limitations.” and “Substantial uncertainties exist with the regulations regarding foreign ownership restrictions and how the New Negative List may impact the viability of our current corporate structure, corporate governance and business operations.”” in this document for the impact and potential consequence of the New Negative List on our Modified Contractual Arrangements.

Subsequent to the Track Record Period and prior to the conversion of the Preferred Shares upon the [REDACTED], we expect that the fair value of the hybrid financial instruments will further increase and to record fair value losses during the same period. In addition, we expect to incur additional [REDACTED]-related expenses in 2019. These two matters will have a negative impact on our financial performance in 2019.

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2019, being the end date of the periods reported on in the Accountant’s Report included in Appendix I to this document, and there is no event since June 30, 2019 that would materially affect the information as set out in the Accountant’s Report included in Appendix I to this document.

[REDACTED] EXPENSES

The [REDACTED] expenses (including [REDACTED] commission) in connection with the [REDACTED] (before exercise of the [REDACTED]) are estimated to be approximately RMB[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range. We incurred approximately RMB[REDACTED] million of [REDACTED] expenses during the Track Record Period, of which RMB[REDACTED] million was recorded as prepayments and RMB[REDACTED] million was charged as expenses to our consolidated income statements. We estimate that we will incur further [REDACTED] expenses of RMB[REDACTED] million, of which RMB[REDACTED] million will be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending December 31, 2019. The remaining amount of approximately RMB[REDACTED] million, which includes [REDACTED] commission, will be accounted for as a deduction from equity upon completion of the [REDACTED]. These [REDACTED] expenses mainly comprise professional fees paid and payable to the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], legal advisors, the reporting accountant and other professional advisors for their services rendered in relation to the [REDACTED] and the [REDACTED].

USE OF [REDACTED]

The aggregate [REDACTED] that we expect to receive from the [REDACTED] (after deducting of [REDACTED] fees and commissions and estimated expenses in connection with the [REDACTED], assuming the [REDACTED] is not exercised) of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share, will be approximately HK\$[REDACTED] million (equivalent to

SUMMARY

RMB[REDACTED] million). We intend to use the [REDACTED] from the [REDACTED] as follows:

- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used primarily to expand our geographic coverage to better support our clients and avail new opportunities;
- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used primarily to expand our industry coverage, through organic growth and/or acquisition in the next three years, to capture demand for flexible staffing services we have observed in certain underserved and expanding industries, and specifically, to target our services to more financial institution, IT industry and new retail clientele;
- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to expand our existing BPO and headhunting service offerings in the next three years in order to capture the expected growth potential in both service sectors;
- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to further enhance our integrated HR ecosystem and build up our capabilities in AI and data mining technology;
- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to further promote our brand and launch marketing and promotion activities;
- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to support our global expansion strategy to replicate our success in quickly meeting various staffing demands of our Chinese clients on a global level, which aligned with China’s one belt one road initiative; and
- Approximately [REDACTED]% of our total estimated [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used for working capital and general corporate purposes.

In the event that the [REDACTED] is fixed below or above the mid-point of the indicative [REDACTED] range, the [REDACTED] allocated to the above purposes will be adjusted on a pro rata basis. Please refer to the section headed “Future Plans and Use of [REDACTED]” in this document for further details.

SUMMARY

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period, we did not fully comply with certain relevant PRC legal requirements for making contributions to social insurance and housing provident fund. Please refer to the sections headed “Business — Our Employees — Employee Relations” and “Risk Factors — Risks Relating to Our Business and Our Industry — Failure to fully comply with the relevant PRC laws and regulations in respect of contributions to various employee benefit plans may materially and adversely affect our financial condition and results of operations” in this document for further details.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this document.

“2019 FIL”	means the Foreign Investment Law of the PRC (中華人民共和國外商投資法) promulgated by the National People’s Congress on March 15, 2019 and will be effective on January 1, 2020
“Allianz Chengdu”	means Allianz Worldwide Partners Commercial Service (Beijing) Co., Ltd. Chengdu Branch, a branch of the insurance solutions provider Allianz Worldwide Partners and is one of our clients
	[REDACTED]
“Articles” or “Articles of Association”	means the articles of association of our Company conditionally adopted on [●], 2019 with effect from the [REDACTED], as amended from time to time, a summary of which is set out in Appendix III to this document
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	means the audit committee of the Board
“Awards”	the award which may be granted by the Board under the [REDACTED] Share Award Scheme, the details of which are set forth in the section headed “Statutory and General Information — E. [REDACTED] Share Award Scheme” in Appendix IV to this document
“Beijing Ruilian”	means Beijing Ruilian Internet Technology Co., Ltd. (北京瑞聯網絡科技有限公司), a company established in the PRC with limited liability on November 26, 2013 and is one of our Consolidated Affiliated Entities
“BNP” or “Sole Sponsor” or [REDACTED]	means BNP Paribas Securities (Asia) Limited, a licenced corporation under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activity as defined under the SFO, acting as the sole sponsor to the [REDACTED]
“Board”	means the board of Directors

DEFINITIONS

“BPO”	means business process outsourcing
“Business Day”	means a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	means the British Virgin Islands
“ByteDance”	means Beijing ByteDance Technology Co., Ltd. (北京字節跳動技術有限責任公司) and its subsidiaries, an internet technology company established in the PRC in March 2012, operating a numerous software products including the content platform Toutiao (今日頭條) and the video sharing platform TikTok (抖音) and is one of our clients
“Catalogue”	means the Guiding Catalogue of Industries for Foreign Investment (revised in 2017) (外商投資產業指導目錄 (2017年修訂)) which was promulgated jointly by the MOFCOM and the National Development and Reform Commission on June 28, 2017 and became effective on July 28, 2017
“Cayman Companies Law” or “Companies Law”	means the Companies Law, Cap 22 (law 3 of 1961) as consolidated and revised from time to time of the Cayman Islands

[REDACTED]

“Chengdu HRSS”	means the Human Resources and Social Security Bureau of Chengdu (成都市人力資源和社會保障局)
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DEFINITIONS

“Chengdu Qicheng WFOE”	means Chengdu Renrui Qicheng Education Consultation Co., Ltd. (成都人瑞啟程教育諮詢有限公司), a company established in the PRC with limited liability on February 29, 2012 and an indirect wholly-owned subsidiary of our Company
“Chengdu Tianfu”	means Chengdu Tianfu Renrui Education Consultation Co., Ltd. (成都天符人瑞教育諮詢有限公司), a company established in the PRC with limited liability on February 2, 2010 and is one of our Consolidated Affiliated Entities
“China” or “PRC”	means the People's Republic of China, except where the context requires otherwise, references in this document to “China” or “PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan
“CIC”	means China Insights Industry Consultancy Limited, an independent market research expert
“CIC Report”	means the industry report prepared by CIC and commissioned by our Company, the content of which is quoted in this document
“Client-imposed Licence Requirement”	means the requirement imposed by certain clients of our Group, as set out in the relevant client contracts, tender documents, and/or as confirmed by these clients, that the relevant contracting entity of our Group which provides Client Service Representative Flexible Staffing Services to such clients must be a holder of the VATS Call Center Licence
“Client Service Representative BPO Services”	means a specific type of BPO services catered for the clients’ needs for client service call center representatives whereby the contract employees work at our Group’s premises under our Group’s direct supervision
“Client Service Representative Flexible Staffing Services”	means a specific type of flexible staffing services catered for the clients’ needs for client service call center representatives whereby the contract employees work at the clients’ premises pursuant to work assignments set by the clients
“Companies Ordinance”	means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	means the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Company” or “our Company”	means Renrui Human Resources Technology Holdings Limited (人瑞人才科技控股有限公司), an exempted company incorporated in the Cayman Islands on October 14, 2011 with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	means the entities we control through the Modified Contractual Arrangements, namely Chengdu Tianfu, Shanghai Renrui, Liaoning Renrui, Beijing Ruilian and Guiyang Renrui
“contract employees”	means employees who are employed by our Group to fulfill the staffing requirements of our clients, namely those employees who are flexible staffing employees, labor dispatch employees, or BPO employees
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules, and, in the context of our Company, means the Founders, Ming Feng, Wu Fu Min Feng and Lin Feng
“core connected person”	has the meaning ascribed to it under the Listing Rules
“CPCC”	means the Copyright Protection Center of China (中國版權保護中心)
“Deed of Indemnity”	means the deed of indemnity dated [●], 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and the other members of our Group) pursuant to which our Controlling Shareholders have given certain tax and other indemnities in favour of our Company, further particulars of which are set out in the section headed “Statutory and General Information — F. Other Information — 2. Tax and other indemnities” in Appendix IV to this document
“DHL Chengdu”	means DHL Global Forwarding (China) Co. Ltd. Chengdu Branch and is one of our clients
“Director(s)”	means the director(s) of our Company

DEFINITIONS

“Exclusive Business Operation Agreement”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Modified Contractual Arrangements” in this document
“Exclusive Option Agreement”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Modified Contractual Arrangements” in this document
“Exclusive Services Agreement”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Modified Contractual Arrangements” in this document
“Extreme Conditions”	extreme conditions caused by super typhoons, including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons, as announced by the government of Hong Kong
“First-level service locations”	means Chengdu, Beijing, Shanghai, Guangzhou and Wuhan, according to our categorisation
“Founders”	means Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang

[REDACTED]

“generation Z”	means individuals born in the mid-1990s and up to mid-2000s
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[REDACTED]

“Government Authority”	means any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational
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[REDACTED]

DEFINITIONS

“Group”, “our Group”, “we”, “us” means our Company and its subsidiaries or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by them or their predecessors (as the case may be)

“Guiyang Renrui” means Guiyang Renrui Services Outsourcing Co., Ltd. (貴陽人瑞服務外包有限公司), a company established in the PRC with limited liability on February 28, 2019 and is one of our Consolidated Affiliated Entities

[REDACTED]

“HK\$” or “HK dollar(s)” or “HKD” and “cent(s)” means Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong

“HKFRS” means the principal accounting policies applied in the preparation of the Historic Financial Information which are in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

“HR” means human resources

“HR Services Licence” means the licence for HR services (人力資源服務許可証)

[REDACTED]

“Hong Kong” or “HK” means the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

[REDACTED]

“Hong Kong Share Registrar” means [REDACTED]

[REDACTED]

“iKang Healthcare Guangzhou” means Guangzhou iKang Junan Outpatient Department Co., Ltd. (廣州愛康君安門診部有限公司) and Guangzhou iKang Guobin Health Check Co., Ltd. (廣州愛康國賓健康檢查有限公司) the Guangzhou branches under iKang Healthcare Group which are our clients

“Independent Third Party(ies)” means individual(s) or company(ies) who/which, to the best knowledge of our Directors having made due and careful enquiries, is(are) not a connected person(s) of our Company within the meaning ascribed under the Listing Rules

“information verification BPO services” means a specific type of BPO services which includes reviewing, labelling and handling of texts, pictures and videos provided by the clients, whereby the contract employees work at our Group’s premises under our Group’s direct supervision

DEFINITIONS

“internal employee” means employees that are on our Group’s payroll but are not a contract employee

[REDACTED]

“IT” means information technology

“Jiayuan” means Shanghai Huaqianshu Information Technology Co., Ltd. Beijing Branch (上海花千樹信息科技有限公司北京分公司), a branch of Shanghai Huaqianshu Information Technology Co., Ltd. which operates the dating online platform Jiayuan (世紀佳緣) and is one of our marketing partners

“Latest Practicable Date” means [October 30], 2019, being the latest practicable date prior to the printing of this document for ascertaining certain information referred to in this document

“Liaoning Corporate” Liaoning Renrui Corporate Services Outsourcing Co., Ltd. (遼寧人瑞企業服務外包有限責任公司), a company established in the PRC with limited liability on September 10, 2019, which is an indirect wholly-owned subsidiary of our Company

“Liaoning Renrui” means Liaoning Renrui Services Outsourcing Co., Ltd. (遼寧人瑞服務外包有限公司), a company established in the PRC with limited liability on August 4, 2017 and is one of our Consolidated Affiliated Entities

DEFINITIONS

“Lin Feng”	means Lin Feng Holdings Limited (菱豐控股有限公司), a limited liability company incorporated in the BVI on January 7, 2019, which is wholly owned by Ms. JM Zhang and is one of our Controlling Shareholders
	[REDACTED]
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented and/or otherwise modified from time to time
“Lychee FM”	means Guangzhou Lizhi Network Technology Co., Ltd. (廣州荔支網絡技術有限公司) which operates an online radio platform Lychee FM (荔枝FM) and is one of our clients
“Main Board”	means the stock market (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with GEM
“Majority PRC Subsidiaries”	means all of our Group’s subsidiaries incorporated in the PRC before the Reorganization except the Consolidated Affiliated Entities
“Memorandum” or “Memorandum of Association”	means the amended and restated memorandum of association of the Company adopted on [●], 2019, a summary of which is set out in Appendix III to this document, and as amended from time to time
“Mid-senior Level Management [REDACTED] SOS”	means the [REDACTED] share option scheme predominantly for certain mid-senior level management members of our Group adopted on March 12, 2019, the principal terms of which are set forth in the section headed “Statutory and General Information — D. Share Option Schemes — 1. [REDACTED] Share Option Schemes — Mid-senior Level Management [REDACTED] SOS” in Appendix IV to this document

DEFINITIONS

“MIIT”	means the Ministry of Industry and Information Technology of the People’s Republic of China (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry (信息產業部))
“MIIT Consultations”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Restrictions on foreign ownership in Shanghai Renrui Recruitment Services and Client Service Representative BPO Services” in this document
“millennials”	means individuals born in the early 1980s and up to mid-1990s
“Ming Feng”	means Ming Feng Holdings Limited (名豐控股有限公司), a limited liability company incorporated in the BVI on July 19, 2011, which was owned as to 80% by Mr. JG Zhang, 10% by Mr. F Zhang and 10% by Ms. JM Zhang prior to the Reorganization, and is wholly owned by Mr. JG Zhang upon completion of the Reorganization and is one of our Controlling Shareholders
“Mobike”	means Beijing Mobike Technology Co., Ltd. (北京摩拜科技有限公司) and its subsidiaries, a station-less bicycle-sharing system operator headquartered in Beijing and is one of our clients
“Modified Contractual Arrangements”	means the modified series of contractual arrangements entered into by, among others, Chengdu Qicheng WFOE, Chengdu Tianfu, its subsidiaries and the Registered Shareholders, which superseded the Old Contractual Arrangements, the details of which are described in the section headed “Contractual Arrangements” in this document
“MOFCOM”	means the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部)
“MOHRSS”	means the Ministry of Human Resources and Social Security of the People’s Republic of China (中華人民共和國人力資源和社會保障部)
“Mr. F Zhang”	means Mr. ZHANG Feng (張峰) (former names: Zhang Haifeng (張海峰) and Zhang Feng (張鋒)), one of our Founders, an executive Director and one of our Controlling Shareholders

DEFINITIONS

“Mr. JG Zhang”	means Mr. ZHANG Jianguo (張建國), one of our Founders, an executive Director and one of our Controlling Shareholders
“Mr. Li”	means Mr. Li Wenjia (李文佳), the chief financial officer of our Group and one of our joint company secretaries
“Ms. JM Zhang”	means Ms. ZHANG Jianmei (張健梅), one of our Founders, an executive Director and one of our Controlling Shareholders
“Ms. Siu”	means Ms. Siu Pui Wah (蕭佩華), one of our joint company secretaries
“NetEase”	means Guangzhou Boguan Information Technology Co., Ltd. (廣州博冠信息科技有限公司) a subsidiary of NetEase.com, Inc (網易) and is one of our clients
“New Negative List”	means the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (外商投資准入特別管理措施(負面清單)(2019年版)) issued by the MOFCOM and the National Development and Reform Commission on June 30, 2019, which took effect on July 30, 2019
“Nomination Committee”	means the nomination committee of the Board
“Non-managerial Employee [REDACTED] SOS”	means the [REDACTED] share option scheme predominantly for certain non-managerial employees of our Group adopted on March 12, 2019, the principal terms of which are set out in the section headed “Statutory and General Information — D. Share Option Schemes — 1. [REDACTED] Share Option Schemes — Non-managerial Employee [REDACTED] SOS” in Appendix IV to this document
“Non-Shanghai Renrui Recruitment Services”	means the professional recruitment services provided by all of the applicable PRC Subsidiaries, except Shanghai Renrui, through the use of the Xiang Recruitment App

[REDACTED]

DEFINITIONS

“Old Contractual Arrangements”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Background of the Contractual Arrangements” in this document
“Old Negative List”	means the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) (外商投資准入特別管理措施(負面清單)(2018年版)) issued by the MOFCOM and the National Development and Reform Commission on June 28, 2018, which took effect on July 28, 2018
	[REDACTED]
“Ping An Financial Chengdu”	means Shenzhen Ping An Integrated Financial Services Co., Ltd. Chengdu Branch (深圳平安綜合金融服務有限公司成都分公司), a subsidiary of Ping An Bank Co., Ltd. and is one of our clients
“[REDACTED] Share Award Scheme”	means the share award scheme conditionally adopted by our Company on [●], 2019, a summary of the principal terms of which is set forth in the section headed “Statutory and General Information — E. [REDACTED] Share Award Scheme” in Appendix IV to this document
“[REDACTED] Share Option Scheme”	means the share option scheme conditionally adopted by our Company on [●], 2019, a summary of the principal terms of which is set forth in the section headed “Statutory and General Information — D. Share Option Schemes — 2. [REDACTED] Share Option Scheme” in Appendix IV to this document
“Powers of Attorney”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Modified Contractual Arrangements” in this document
“PRC Subsidiaries”	means all our Group’s subsidiaries incorporated in the PRC from time to time
“PRC Legal Advisor”	means Haiwen & Partners, our legal advisor as to PRC laws

DEFINITIONS

“Preferred Shares”	means Series A Preferred Shares, Series B1 Preferred Shares, Series B2 Preferred Shares, Series D1 Preferred Shares and Series D2 Preferred Shares
“[REDACTED] Investments”	means Series A Investment, Series B1 Investment, Series B2 Investment, Series C Investment, Series D1 and Series D2 Investment
“[REDACTED] Investors”	means LC Fund V, L.P., LC Parallel Fund V, L.P., Macquarie Corporate Holdings Pty Limited, Ma’anshan Zijinghua Shareholding Investment Partnership Corporation (Limited Partnership), VMS Strategic Investment Fund, L.P. and North Sea Investment Company Limited
“[REDACTED] Share Option Schemes”	means the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS
	[REDACTED]
“Provinces”	means 34 provincial-level divisions in the PRC including provinces, autonomous regions, municipality, and special administrative regions
“questionnaire survey BPO services”	means a specific type of BPO services which includes assisting with the telephone survey, verification and update of information as designated by the clients, whereby the contract employees work at our Group’s premises under our Group’s direct supervision
“Qunar”	means Beijing Qunar Software Technology Co., Ltd. (北京趣拿软件科技有限公司) which operates an online travel agency search and booking platform Qunar (去哪儿) and is one of our clients
“R&D”	means research and development
“Registered Shareholders”	means Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, as the registered shareholders of Chengdu Tianfu, each a “Registered Shareholder”
	[REDACTED]

DEFINITIONS

“Relevant Businesses”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Background of the Contractual Arrangements” in this document
“Remuneration Committee”	means the remuneration committee of the Board
“Renrui (HK)”	means Renrui Education (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on November 4, 2011 and a direct wholly-owned subsidiary of our Company
“Reorganization”	means the reorganization arrangements undertaken by the Group in preparation for the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Restructuring” in this document
“RMB” or “Renminbi”	means the lawful currency of China
“SAFE”	means the State Administration for Foreign Exchange of the People’s Republic of China (中華人民共和國國家外匯管理局)
“SAMR”	means the State Administration for Market Regulation (中華人民共和國國家市場監督管理總局), formerly known as the State Administration of Industry and Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局)
“Second-level service locations”	means Xian, Chongqing, Tianjin, Hangzhou, Nanjing, Shenzhen, Yingkou, according to our categorisation
“Series A Investment”	means the investment(s) in our Company undertaken pursuant to a preferred share purchase agreement entered into by LC Fund V, L.P., LC Parallel Fund V, L.P., Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders dated March 23, 2012, the details of which are set out in the section headed “History, Reorganization and Corporate Structure — [REDACTED] Investments — Overview — Series A Investment” in this document
“Series A Preferred Shareholders”	means the holder(s) of Series A Preferred Shares
“Series A Preferred Shares”	means the series A convertible preferred share(s) of our Company with a par value of US\$0.00005 each

DEFINITIONS

“Series B Preferred Shareholders”	means the holder(s) of Series B1 Preferred Shares and Series B2 Preferred Shares
“Series B1 Investment”	means the investment(s) in our Company undertaken pursuant to a share subscription agreement entered into by Macquarie Corporate Holdings Pty Limited (previously known as Macquarie Capital Group Limited), Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders dated February 27, 2014, and the investment(s) in our Company undertaken pursuant to a share purchase agreement entered into by our Company, Macquarie Corporate Holdings Pty Limited and VMS Strategic Investment Fund, L.P. dated July 16, 2018, the details of which are set out in the section headed “History, Reorganization and Corporate Structure — [REDACTED] Investments — Overview — Series B1 Investment” in this document
“Series B1 Preferred Shares”	means the series B1 convertible preferred share(s) of our Company with a par value of US\$0.00005 each
“Series B2 Investment”	means the investment(s) in our Company undertaken pursuant to a convertible note purchase agreement entered into by our Company, Ming Feng, the Founders, Macquarie Corporate Holdings Pty Limited, LC Fund V, L.P., and LC Parallel Fund V, L.P. dated March 24, 2015, the details of which are set out in the section headed “History, Reorganization and Corporate Structure — [REDACTED] Investments — Overview — Series B2 Investment” in this document
“Series B2 Preferred Shares”	means the series B2 convertible preferred share(s) of our Company with a par value of US\$0.00005 each
“Series C Investment”	means the investment(s) in our Company undertaken pursuant to two convertible loan investment agreements entered into by Ma’anshan Zijinghua Shareholding Investment Partnership Corporation (Limited Partnership), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders dated September 28, 2015 and January 3, 2017, respectively, the details of which are set out in the section headed “History, Reorganization and Corporate Structure — [REDACTED] Investments — Overview — Series C Investment” in this document

DEFINITIONS

“Series D1 and D2 Investment”	means the investment(s) in our Company undertaken pursuant to a share subscription agreement entered into by VMS Strategic Investment Fund, L.P., North Sea Investment Company Limited, Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders dated July 16, 2018, the details of which are set out in the section headed “History, Reorganization and Corporate Structure — [REDACTED] Investments — Overview — Series D1 and D2 Investment” in this document
“Series D Preferred Shareholders”	means the holder(s) of Series D1 Preferred Shares and Series D2 Preferred Shares
“Series D1 Preferred Shares”	means the series D1 convertible preferred share(s) of our Company with a par value of US\$0.00005 each
“Series D2 Preferred Shares”	means the series D2 convertible preferred share(s) of our Company with a par value of US\$0.00005 each
“SFC”	means the Securities and Futures Commission of Hong Kong
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Shanghai Renrui”	means Shanghai Renrui Internet Technology Co., Ltd. (上海人瑞網絡科技有限公司), a company established in the PRC with limited liability on October 24, 2012 and is one of our Consolidated Affiliated Entities
“Shanghai Renrui Recruitment Services”	means the professional recruitment services provided by Shanghai Renrui through the use of the Xiang Recruitment App
“Share Option Schemes”	means the [REDACTED] Share Option Schemes and the [REDACTED] Share Option Scheme
“Share Pledge Agreement”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Modified Contractual Arrangements” in this document
“Share(s)”	means the ordinary share(s) of nominal value of US\$0.00005 each in the share capital of our Company
“Shareholder(s)”	means holder(s) of the Share(s)

DEFINITIONS

“SPD Bank credit card center”	means Shanghai Pudong Development Bank credit card center (上海浦東發展銀行股份有限公司信用卡中心) which is one of our clients
“Spouses’ Undertakings”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Modified Contractual Arrangements” in this document
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	means the Codes on Takeovers and Mergers and Share Buy-backs, as amended, modified and supplemented from time to time
“Tencent”	means Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) and its subsidiaries and is one of our clients
“Third-level service locations”	means Qingdao, Jinan, Hefei, Ningbo, Suzhou, Quzhou, Shangrao, Foshan, Guiyang, according to our categorisation
“TMT”	means technology, media and telecom
“Track Record Period”	means the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019

[REDACTED]

“United States” or “U.S.”	means the United States of America
“US\$” or “US dollars” or “USD”	means United States dollars, the lawful currency of the United States
“Vanke Wuhan”	means Wuhan Liantou Vanke Property Co., Ltd. (武漢聯投萬科房地產有限公司), a property developer established in Wuhan, PRC and is one of our clients

DEFINITIONS

“VATS”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Background of the Contractual Arrangements” in this document
“VATS Call Center Licence”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Restrictions on foreign ownership in Shanghai Renrui Recruitment Services and Client Service Representative BPO Services” in this document
“VATS Call Center Licence Application”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document
“VATS Licence”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — Background of the Contractual Arrangements” in this document
“VATS Qualification Requirement”	has the meaning ascribed thereto in the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Restrictions on foreign ownership in Shanghai Renrui Recruitment Services and Client Service Representative BPO Services” in this document
“Vienna Hotel”	means Shenzhen Vienna International Hotel Management Co., Ltd. (深圳市維也納國際酒店管理有限公司) and is one of our clients

[REDACTED]

“Wu Fu Min Feng”	means Wu Fu Min Feng Holdings Limited (物阜民豐控股有限公司), a limited liability company incorporated in the BVI on January 4, 2019, which is wholly owned by Mr. F Zhang and is one of our Controlling Shareholders
“Xiaohongshu”	means Xingyin Information Technology (Wuhan) Co., Ltd. (行吟信息科技(武漢)有限公司), a branch of Xingyin Information Technology (Shanghai) Co., Ltd., which operates the social media and e-commerce platform Xiaohongshu (小紅書) and is one of our clients

DEFINITIONS

“Xinan Renrui” means Chengdu Xinan Renrui Human Resources Services Co., Ltd. (成都西南人瑞人力資源服務有限公司), a company established in the PRC with limited liability on March 9, 2017, which is an indirect wholly-owned subsidiary of our Company

[REDACTED]

“%” per cent.

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the [REDACTED] assume that the [REDACTED] is not exercised, the options which have been or may be granted under the Share Option Schemes are not exercised and no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme.

The English names of the PRC nationals, PRC entities, PRC laws or regulations, PRC governmental authorities, PRC facilities, PRC certificates, PRC titles and the like referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“AI”	means artificial intelligence, simulated intelligence in machines programmed to perform tasks normally requiring human intelligence
“active”	a user account that was logged in at least one time in a given period
“CAGR”	means compound annual growth rate
“CV”	means curricula vitae
“GDP”	means gross domestic product
“GMV”	means gross merchandise volume
“Integrated Contract Management System”	means our centralized data system which enables centralized storage and management of all aspects of past and current contracts entered into during our business operations, and is integrated with our accounting and finance systems
“Integrated HR ecosystem”	means our proprietary centralized data system which synchronizes with, and is connected to, our Rui Recruitment System, Rui Cloud Management System, Rui Home Platform, Xiang Recruitment Platform, and Integrated Contract Management System
“job opening”	means open job positions
“low to mid-level positions”	means general positions including office clerks (e.g. receptionists, secretaries, information verification clerks, client service representatives), and sales and service clerks
“mid to high-level positions”	means professional positions such as IT R&D
“new economy”	means, generally, industries that rely inherently on technological advancements, such as the internet, business services, hardware and software technologies, media and entertainment industries, and traditional industries that are being transformed as a result of innovations, such as retail, healthcare, finance, and new energy industries

GLOSSARY OF TECHNICAL TERMS

“public labor market”	refers to the employment markets provided by the public employment services agencies (公共就業服務機構) under the guidance of the Ministry of Human Resources and Social Security of the PRC
“O2O”	means online to offline
“registered individual users”	means individual users that have completed all required registration and verification procedures on our Xiang Recruitment to our satisfaction
“retention”	means number of clients that continue to use a service over a given period of time
“Rui Cloud Management System”	means our proprietary management platform (瑞雲) available to our clients for contract employee deployment. Clients which are granted access to this platform can keep track of various aspects of those contract employees deployed onsite, such as attendance, salary and employee benefits
“Rui Home Platform”	means our proprietary employee social network (瑞家園) designed as a one-stop platform for our contract employees to keep track of matters such as onboarding procedures, e-signature for employment contracts, leave applications, salary inquiries, training programs, and employee benefits
“Rui Recruitment System”	means our proprietary recruitment process management platform (瑞聘) where our project managers and other authorized individuals can manage job openings, advertisements, screening of CVs, interview arrangement, offer management and arrange onboarding logistics
“SaaS”	means software as a service/solution, which refers to our software where we host a range of proprietary applications/programs that are made available to our business clients over the internet
“stickiness”	means the measure of user engagement (e.g. number of active users), how frequently a client is using a service

GLOSSARY OF TECHNICAL TERMS

“Unicorn(s)/unicorn company(ies)”

means the 164 companies identified as unicorn companies in the 2017 Development Report of Chinese Unicorn Companies (2017中國獨角獸企業發展報告) published by the Great Wall strategic consultation of Torch Center under the Ministry of Science and Technology of the PRC (科技部火炬中心長城戰略諮詢) in March 2018, which are: (1) legal entities registered in China; (2) not established for more than ten years (i.e. established in 2007 and after); (3) invested in by private equities but not listed; and (4) with a valuation exceeding (including) one billion US dollars (such valuation being based on the latest round of financing before December 31, 2017)

“Xiang Recruitment Platform”

means our proprietary recruitment software (香聘, formerly known as 香草招聘 and also 1tJob.com (1天工作網)) which is a self-built, online-to-offline recruitment platform that allows our clients to publish job openings, and our registered individual users to conduct job searches based on different filters and preferences, displays smart job recommendations to our users, and is used to handle the major steps in the recruitment process, from job application to signing in for the job interview, to notification of interview results

“Xiang Recruitment App”

means the mobile application owned and operated by Shanghai Renrui which enables registered individual users to remotely access our Xiang Recruitment Platform

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “aim”, “potential”, “continue”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “objective”, “target”, “schedules”, “outlook” or other similar expressions) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our business prospects;
- our future business development, financial condition and results of operations;
- our business strategies and our operating and expansion plans to achieve these strategies;
- our ability to identify and satisfy market demands and preferences;
- our ability to maintain good relationships with business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- relevant government policies and regulations relating to our industry, business and corporate structure;
- future developments, trends and conditions in the industry and markets in which we operate;
- changes to the regulatory environment and general outlook;
- our dividend policy;
- capital market development;

FORWARD-LOOKING STATEMENTS

- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this document.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

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Potential investors should carefully consider all of the information set out in this document and, in particular, the risks and uncertainties described below, before making any investment decision in relation to our Company. If any of the possible events described below occur, our business operation, financial condition or results of operations could be materially and adversely affected and the market price of the Shares could fall significantly, and you may lose all or part of your investment.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and our industry; (ii) risks relating to our contractual arrangements; (iii) risks relating to doing business in the PRC; and (iv) risks relating to the [REDACTED].

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

A considerable portion of our revenue was generated from our clients in the fast-growing new economy industries during the Track Record Period which we anticipate will continue to be the case in near future, and any slowdown in their growth or significant reduction in these clients’ staffing needs may materially and adversely affect our business, results of operations and prospects.

During the Track Record Period, a considerable portion of our total revenue for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 respectively was generated from our clients in the new economy industries in the PRC which created considerable demand for flexible staffing services to meet their fast growing business. Contracts with some of our major clients were awarded through tendering processes. There is no guarantee that we will continue to obtain contracts from our clients in the new economy industries or maintain similar success rates in our tenders in the future.

In addition, there is no guarantee that there will not be any significant reduction in our clients’ needs for flexible staffing services, professional recruitment services and other HR solutions which may be affected by various factors such as the general economic conditions in the PRC especially in the new economy industries, the financial conditions of a particular client and the change of their policy towards procurement of staffing services. For example, the revenue generated from our major clients could fluctuate to a considerable extent according to their respective business needs, and our largest client in each year was different during the Track Record Period. If there is any significant reduction and/or delay in the staffing needs by these new economy clients in the PRC for any reason, and we are unable to obtain sufficient business from other clients, our business, results of operations and prospects will be materially and adversely affected.

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Our inability to rapidly source adequate candidates who meet the requirements of our clients may adversely affect our reputation, business prospects and future financial performance.

Many of our clients, especially those in the new economy industries, require rapid and large-scale hiring to fulfil their staffing demands for their fast expansion to acquire market share or to meet seasonal demands. Our business depends on our ability to rapidly and continually source large numbers of suitable candidates to support the rapid expansion of our clients. If we are unable to source enough candidates who possess the skills and/or experience necessary to meet the requirements of our clients in a timely fashion, or such candidates misbehave or carry out unsatisfactory performance, our business operations and financial performance may be adversely affected.

In addition, we must continually evaluate and upgrade our talent pool composition to keep pace with changing client needs and emerging technologies. Competition for individuals with proven professional skills and experience is intense, and qualified candidates may not be available to us in sufficient numbers and on terms of employment acceptable to us, as qualified personnel can seek employment through multiple sources. We may not be able to effectively meet the expectations of our clients due to our failure to identify candidates with the requisite skills, experience or other attributes, which could materially and adversely affect our business.

We have a limited operating history in a dynamic market and we may not be able to successfully manage our current and potential future growth.

We started our business in 2010 and have a limited length of operating history. Our business has grown significantly in recent years and we intend to continue to expand the scope and geographic reach of our services by extending our nationwide coverage to service more clients in cities where we currently do not have an office. Our total revenue increased from approximately RMB376.3 million in 2016 to RMB776.2 million in 2017 and further to approximately RMB1,615.9 million in 2018, representing a CAGR of 107.2%. Our total revenue also grew from approximately RMB659.0 million for the six months ended June 30, 2018 to approximately RMB1,077.4 million for the six months ended June 30, 2019. The number of total contract employees deployed grew from approximately 10,500 as of December 31, 2016 to approximately 27,200 as of December 31, 2018, representing a CAGR of 60.8%.

As set out in the section headed “Business — Our Strategies” in this document, we intend to further advance our growth by, among other things, expansion of our operations, mergers and acquisitions, joint ventures and partnerships. Such future plans are based on current intentions and assumptions. Our expansion plan may be hindered by factors beyond our control, such as general market conditions, our ability to attract qualified employees, government policies relevant to our industry, our ability to maintain our existing competitive advantages and new market entrants. For example, there may be ownership restrictions in new jurisdictions where we intend to expand. In order for our Group to operate as a HR

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services provider in these jurisdictions, we may be required to identify suitable local partners in order to enter into such new markets. If we are unable to successfully implement our growth strategy, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our anticipated future growth will likely place significant demand on our management and operational efficiency. Our success in managing our growth will depend, to a significant degree, on our ability to attract more new clients and retain existing clients and launch new services, and successfully monetize them, to increase our revenue. In addition, we will have to successfully adapt our existing services to changing industry and user conditions, and expand, train and manage our employees. The market in which we operate is highly dynamic and may not develop as expected. Our clients may not fully understand the value of our services and potential clients and candidates may have difficulty distinguishing our services from those of our competitors. If we are unable to properly and prudently manage our operations as we continue to grow in this dynamic and evolving market, or if the quality of our services deteriorates due to mismanagement, our brand name and reputation could be severely harmed, which would materially and adversely affect our business, financial condition and results of operations.

We face significant competition from other HR services providers and may suffer from a loss of clients, registered individual users and contract employees as a result.

The HR services industry in China is highly competitive, rapidly evolving, and has a low level of concentration. As the fastest growing sector of China’s HR outsourcing industry according to CIC, the flexible staffing market has been a new major battlefield for HR services providers in China. For further details, please refer to the section headed “Industry Overview — Overview of the Flexible Staffing Market in China” in this document. We face constant pressure to attract clients and candidates, and expand the market for our services. We face competition against flexible staffing services providers that have a longer operating history, a wider client base and a greater reputation than us for retaining clients, and face competition from existing participants in the online HR services industry which may have stronger online and mobile professional social networks to connect and capture potential candidates. If we are unable to compete effectively, successfully and at reasonable cost against our existing and potential competitors, our business prospects, financial condition and results of operations could be materially and adversely affected.

We have to keep up with rapid changes in the HR services industry.

We operate in the HR services industry and the industry is subject to rapid changes in both the labor market and the relevant regulations, please refer to the section headed “Regulatory Overview — Regulatory Environment in the PRC — Regulations Relating To HR Services” in this document for further details. For instance, recent government policies including the Opinion on Advancing Entrepreneurship and Innovation and Opinions on the Development of E-commerce to Accelerate Development of the New Economic Driving Force (國務院關於大力發展電子商務加快培育經濟新動力的意見) have encouraged the expansion of an optimized workforce to meet fluctuating business demand. Many of our clients, especially those in the new economy industries and financial sector, are also experiencing rapid

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development and are also subject to an evolving regulatory environment. We may also be affected by any government policy with respect to increases in the minimum wage of workers. There is no assurance that we can offer, or develop the expertise, experience, and resources, to offer HR services to our clients on a timely and competitive basis. We may incur significant costs in developing our business, adapting to the changes in the labor market or regulatory environment and providing training to our employees in order to maintain our competitiveness.

If we cannot keep up with the rapid changes in the HR services industry and provide our services to our clients with the latest information and talents with specific skill sets which match the requirements of a given project or position, the demand for our HR services may be adversely affected.

If we fail to improve our user experience or respond to changes in user or client preferences, we may not be able to attract and retain registered individual users and clients, which may have a material adverse effect on our business, financial condition and results of operations.

Our success is dependent on our ability to attract and retain registered individual users, clients and other stakeholders to our business. Our clients are our primary source of revenue. The stickiness and engagement of our registered individual users and our clients depend on our ability to maintain and increase the number of job opportunities on our Xiang Recruitment Platform, the quantity and quality of available candidates, as well as the overall user experience. In particular, we believe our focus on client and user support is critical to attracting new registered individual users and clients. If we fail to maintain any of these factors, our platform may become less attractive to the registered individual users and clients, which may have a material and adverse effect on our business, financial condition and results of operations.

To continually satisfy our registered individual users and clients, we need to continue to improve and enhance our user experiences. This includes improving and updating our technology and data capabilities, optimizing recommendation and matching results, and enhancing the user-friendliness of our platform. We cannot assure you that our initiative to improve our user experience will always be successful. If we are unable to increase and retain our registered individual users and clients, our business, financial condition and results of operations may be materially and adversely affected.

We may experience delays or defaults in payment by our clients, which may adversely affect our cash flow and working capital, financial condition and results of operations.

We face the risk that our clients may delay their settlement with us or delay or fail to make payment as scheduled. As of December 31, 2016, 2017, 2018 and June 30, 2019, our trade receivables were approximately RMB92.1 million, RMB157.6 million, RMB337.5 million and RMB340.2 million, respectively. Trade receivables represent outstanding amounts due from our clients for their purchase of our services. Since we need to pay salaries, benefit, social insurance and housing provident fund contributions to our contract employees even if the relevant payment has not been received from our clients for the period when these contract employees were working for the clients. Delays or failures in payments by our clients may

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affect our cash flow and ability to meet working capital requirements. Please refer to the section headed “Financial Information — Discussion of Certain Items from the Consolidated Balance Sheet — Trade and Notes Receivables” in this document for further details. As of December 31, 2016, 2017, 2018 and June 30, 2019 our provision for impairment of trade receivables were approximately RMB1.0 million, RMB3.1 million, RMB6.1 million and RMB6.3 million, respectively. We cannot assure you that payments from clients will be made in a timely manner or at all, or that delays or defaults in payments will not adversely affect our payment to our contract employees and our reputation among them, our financial condition and results of operations.

Our service contracts generally do not provide any obligation and/or commitment on the part of our clients to use our services and the loss of or substantial decline in job orders from any major clients could have a material adverse effect on our business, financial condition and results of operations.

Our success and profitability today is a result of our ability to retain and form deep relationships with existing clients, as well as acquire new clients. During the Track Record Period, we generated substantial part of our revenues by providing flexible staffing services to our clients. Our existing clients have no obligation to renew their contracts and we typically do not enter into long-term contracts with terms longer than 24 months with our clients. Also, the staffing needs of our flexible staffing clients vary from time to time and may decrease significantly during the contract period for different reasons. In order to grow our business, we must continually attract new clients and retain existing clients by maintaining the quality of services and providing additional services. Our ability to do so depends in large part on the success of our sales and marketing efforts. We must demonstrate to our clients that our services are important tools for them to grow their businesses. The rate at which we expand our client base or renewal rate of our clients may decline or fluctuate because of several factors, including the prices of our services, the prices of services offered by our competitors, the hiring needs of our clients, or other factors out of our control. Ultimately, attracting new clients and retaining existing clients require us to continue to provide high-quality services that are valued by our clients. If we are unable to continue to retain existing clients and acquire new clients due to our inability to adapt to changing market conditions, or if our existing or new clients do not perceive our services to be of sufficiently high value and quality, our business, financial performance and financial condition may be materially and adversely affected.

Any significant decrease in revenue generated from our five largest clients would materially and adversely affect our business, results of operations and financial condition.

Revenue from our five largest clients accounted for approximately 45.2%, 44.2%, 50.8% and 57.1% of our total revenue for the years ended December 31, 2016, 2017, 2018 and the six months ended June 30, 2019, respectively, with revenue from our largest client accounted for approximately 15.2%, 17.9%, 21.4% and 34.1% of our total revenue for the same periods, respectively. Our five largest clients during the Track Record Period comprised mainly unicorn companies and new economy companies in the PRC. As demand for our services depends on the staffing needs of these largest clients, there is no assurance that the demand for our services can be maintained or will continue to grow. We do not generally have long-term

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cooperation agreements or exclusive arrangements with our five largest clients, and they may therefore choose to move some or all of their business to our competitors on short notice. Any increase in competition from other HR service providers, significant reduction in the level of spending on HR services by unicorn companies and new economy companies in the PRC, or deterioration in the industry in which these largest clients operate may significantly reduce the volume or price of our service which may lead to material adverse impact on our business, financial condition and results of operation.

The integrity and reliability of our technology and information infrastructure may be vulnerable to interruption and damage and may not perform as anticipated.

The operation of our business is highly dependent on the integrity and reliability of our technology and information infrastructure that supported our integrated HR ecosystem, which primarily include Xiang Recruitment Platform, Rui Recruitment System, Rui Cloud Management System, Rui Home Platform and Integrated Contract Management System. Our integrated HR ecosystem directly contributed to the effectiveness and efficiency of our HR services and enable us to manage our talent database and entire operating process centrally in order to satisfy the needs and preferences of our users and clients. Please refer to the section headed “Business — Our Integrated HR Ecosystem” in this document for further details.

Our talent database and operating data are stored in our servers that are located in our Shanghai office, with an off-site backup data storage server in Beijing. Any physical security breach of, or disasters causing damage to, our system could disrupt our business and could result in decreased revenue and increased overhead costs, causing our business and results of operations to suffer materially. In addition, our technology and information systems are vulnerable to damage or interruption from power outages, hardware failures, security breaches, and human errors by our employees. Failure of our technology and information systems may require significant additional capital and management resources to resolve, causing material harm or disruption to our business. Any unexpected problems in the technology and information systems may have material adverse effects on our business and operations as well as reputation.

Computer viruses, undetected software errors, and hacking may cause delays or interruptions on our systems and may reduce the use of our services and damage our reputation and brand image.

Our online platform and other software applications including our SaaS solutions, products, hardware infrastructure and systems could contain undetected errors, or “bugs”, that could adversely affect their performance. While we regularly update and enhance our platforms and other information systems and introduce new versions of our software products and applications, the occurrence of errors in any such update or enhancement may cause disruptions to our services and may, as a result, cause us to lose market share, damage our reputation and brand name, and materially and adversely affect our business. In addition,

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computer viruses and hacking may cause delays or other service interruptions to our systems. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment.

We cannot assure you that our current protocol and preventive mechanisms will successfully prevent hacking or the transmission of any computer virus or malware, which could result in significant damage to our hardware and software systems and databases, disruptions to our business activities, including to our e-mail and other communication systems, breaches of security and the inadvertent disclosure of confidential or sensitive information, interruptions in access to our online platforms through the use of “denial of service” or similar attacks and other material adverse effects on our operations.

We may incur significant costs to protect our systems and equipment against the threat of, and to repair any damage caused by, computer viruses and hacking. Moreover, if a computer virus or hacking affects our systems and is highly publicized, our reputation and brand name could be materially damaged and usage of our services may decrease. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability.

Our results of operations may fluctuate due to seasonality.

Our operating results may be subject to fluctuations partly attributable to seasonality in the HR services market and holiday periods such as Chinese New Year. We generally record a lower number of flexible staffing employees during the months of January and February each year, and a subsequent increase in flexible staffing employees after holiday periods in the first quarter of each year. Our Directors believe this is due to a number of flexible staffing employees returning to their home province for the Chinese New Year holidays, which usually falls in the first two months of each calendar year, and subsequently returning to work after the holidays. As such, operating results of our Group for certain periods within a calendar year or between interim periods should not be taken as an indication of its performance for the entire year, and operating result comparisons between periods may be inaccurate and misleading when used to predict future operating results. Prospective investors should be aware of this possible seasonal fluctuation when making any comparison of our Group’s operating results.

Substandard performance by or early departure of our contract employees may adversely affect our service quality and reputation, which could harm our brand and have material adverse effect on our business, financial condition and results of operations.

We provide flexible staffing services mainly by deploying contract employees recruited by us to perform various functions and assignments of different clients at the work sites designated by our clients. Although we provide our contract employees with basic training on relevant job functions as part of the onboarding procedure, as well as briefings on service standard and work expectations of our clients, there is no assurance that our contract employees will perform up to our clients’ expectations and specifications. Further, while we designate project managers and assign onsite teams for project supervision, as our deployed

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contract employees work directly under the supervision of our clients, we cannot directly monitor the job performance of such deployed contract employees at the work sites. If the performance of our deployed contract employees is unsatisfactory to our clients, we will be required, depending on the relevant contract terms with our clients, to arrange for appropriate training and/or replacement at our cost. If such dissatisfaction of clients persists or occurs frequently, it may adversely affect our clients’ perception of our service quality and damage our reputation among our clients, which may in turn result in reduction in future demands for our services, thereby adversely affecting our business, financial positions and prospect.

We may be exposed to employment-related claims and vicariously liable for the acts or omissions of our contract employees.

As of December 31, 2016, 2017, 2018 and June 30, 2019, we had approximately 10,500, 20,900, 27,200 and 25,500 contract employees, respectively. Despite a large percentage of these being flexible staffing employees that work at client sites while being supervised by our clients, they remain as our employees and we may be exposed to employment-related claims and vicariously liable for their acts or omissions while they carry out or purport to carry out the respective responsibilities entrusted to them by our clients. Many of the risks, most of which are beyond our control, may adversely affect our business, operation and reputation, as well as require us to incur additional costs to settle or defend these claims or legal actions:

- claims from any of our clients who suffer any losses arising from their reliance on false or misleading information provided by our contract employees;
- claims by our clients relating to our contract employees’ misuse of proprietary information, misappropriation of funds, or other similar claims;
- claims by our clients relating to the employment of undocumented or illegal workers;
- claims relating to the entitlement of bonus, social insurances and other employment benefits;
- wrongful termination claims by our contract employees;
- discrimination or harassment claims by our contract employees relating to the actions of our clients; and
- claims relating to rights under our contract employees’ employment contracts.

While we have implemented mechanisms to verify the qualifications of our contract employees and adopted internal policies that seek to prevent our contract employees from perpetrating fraud or other misconducts, we cannot assure you that any of such measures would be sufficient. Any such claims could also impose a significant strain on our financial resources and attention of our management regardless of whether the claims have merit, any of which could result in complaints from our contract employees or our clients, and attract

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regulatory and legal liabilities, as well as serious harm to our brand and reputation. Should there be an ultimate judgement against us or settlements which exceed our insurance coverage, they could have a material effect on our results of operations, financial position and cash flows.

Failure to fully comply with the relevant PRC laws and regulations in respect of contributions to various employee benefit plans may materially and adversely affect our financial condition and results of operations.

Pursuant to PRC laws and regulations, we are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, maternity insurance, work-related injury insurance and the housing provident fund, and to contribute to these plans and funds at the levels specified by the relevant local government authorities from time to time at locations where we operate our business. During the Track Record Period and as of the Latest Practicable Date, we did not make full contributions to the social insurance plans and the housing provident fund as required under the relevant laws and regulations, and some of our PRC Subsidiaries engaged third party agents to pay social insurance and housing provident fund for some of their employees, which are not in strict compliance with the applicable PRC laws and regulations. For further details of the above non-compliance, please refer to the section headed “Business — Our Employees — Employee relations” in this document.

As of the Latest Practicable Date, we had not received any notice or administrative penalty from the local authorities or any material claim from our current and former employees regarding our non-compliance matters as disclosed above. We have obtained confirmations from the relevant local authorities that, among other things, they would not take initiative to demand us to pay for the shortfall of contributions or impose any penalty on us. However, we cannot assure you that our agents will pay the social insurance and housing provident fund for and on behalf of our employees, or the relevant local authorities will not impose new requirements on us according to laws, regulations or local policies published by the relevant authorities from time to time in the future, such as ordering us to make supplemental social insurance and housing provident fund contributions, imposing late fees or fines on us or ordering us to take other measures, any of which may materially and adversely affect our business, financial condition and results of operations.

Concerns about our collection, disclosure, security and use of personal data and other privacy-related matters could damage our reputation and deter our clients, contract employees and job applicants from using our services.

Our business operations require us to obtain, process and retain information pertaining to our candidates, employees, clients, and suppliers, as well as routinely transmit personal, confidential and proprietary information, over public networks. It is possible that our security controls over personal and other information and the other practices we follow may not prevent improper access to, or disclosure of, personally identifiable or otherwise confidential information. Further, our current security measures may not be adequate. Any party who can circumvent our security systems may be able to steal or misuse such information or disrupt our operations.

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Currently, a significant number of our registered individual users and contract employees maintain personal information on our databases. There could be a risk that we may not be able to prevent certain non-compliant employees from sending out the personal information of potential candidates without the candidate’s formal approval. Accordingly, we may receive complaints from these candidates in the event of such incidents.

Our business operations also involve access by our internal employees to clients’ confidential information. There can be no assurance that in the future we will not be subject to claims relating to abuse of confidential information by our internal employees or proceedings related to intentional or unintentional exposure of our clients’ confidential information.

Failure to establish adequate safeguards to protect the personal data or confidential information in our possession against accidental or unlawful loss or modification, unauthorized access, use or similar risks may result in security breaches or material non-compliance with third party security requirements. Such events may expose us to the imposition of fines or regulatory action, a risk of loss or litigation and potential liability for failing to secure confidential client or supplier information. These events may also harm our reputation and subject us to liability under our contracts with our clients and suppliers. In the event that we are unable to assure the security of such personal data in our possession, our business, reputation and financial results may be adversely affected.

We are required to collect, use, disclose and secure the personal data in accordance with relevant PRC personal data protection laws and regulations, and not to collect, use or disclose such information without consent from relevant persons. The Cyber Security Law of the PRC (《中華人民共和國網絡安全法》) effective since June 1, 2017 requires network operators including us to (i) expressly notify the user of the rules, purposes, methods and scope of the collection and use of one’s personal data; and (ii) obtain consent from the user for collection, use and disclosure of such personal data. If we violate such requirements, we may be subject to potential penalties depending on the nature of such violation, such as fines, rectification of relevant business, shutdown of websites, revocation of business licences or relevant permits, and fines imposed on the company or management personnel. In addition, Amendment 9 to the PRC Criminal Law (《中華人民共和國刑法修正案 (九)》) effective since November 1, 2015 prohibits stealing or otherwise illegally obtain, illegal sale and provision of personal data obtained during the course of providing services. Moreover, pursuant to the PRC General Rules of Civil Law (《中華人民共和國民法總則》) effective since October 2017, any organization that obtains personal data shall ensure the security of such data. It is not allowed to illegally collect, use, process or transfer the personal data and it is illegal to buy and sell, provide or publish the personal data. Furthermore, practices regarding the collection, use, provision and security of personal data by network operators have recently come under increased public scrutiny and may be subject to increased regulation by the PRC government. For example, the Provisions on Cyber Supervision and Inspection by Public Security Authorities (《公安機關互聯網安全監督檢查規定》), which sets out more detailed rules regarding Public Security Authorities’ supervision and inspection of cyber security. Please refer to the section headed “Regulatory Overview — Regulatory Environment in the PRC — Regulations Relating to Privacy Protection” in this document for further details.

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Any failure or perceived failure to comply with any current or new laws or regulations may result in proceedings or actions against us by government entities or private individuals, which could have an adverse effect on our business. Moreover, failure or perceived failure to comply with applicable laws and regulations related to the collection, disclosure, use, sharing or security of personal data or other privacy-related matters could result in a loss of confidence in us by our clients and potential candidates who registered their personal information with us, which could adversely affect our business, financial condition and results of operations. We may also be subject to stricter personal data and privacy-related requirements and heightened risk of non-compliance in the future. Implementing additional internal measures to comply with such enhanced compliance requirements may increase our cost and impact our financial position.

If our registered individual users’ profiles are out-of-date, inaccurate or lack credible information, we may not be able to create value for our clients, which may have material adverse effect on our business and results of operations.

If our registered individual users do not provide accurate, authentic and complete information when they register their account with us or update their resumes to our database, the value of our integrated HR ecosystem may be negatively impacted as our ability to match the right talents with suitable job positions will be substantially weakened. Although we require our candidates to provide authentic and complete information, we cannot assure you that such measure is effective in ensuring the accuracy, authenticity and completeness of information on our database. Misleading, incomplete or outdated information and profiles of registered individual users may cause our clients to misidentify a job candidate, which could impact clients’ confidence in our services. Similarly, use of misleading, incomplete or outdated information and profiles of registered individual users would diminish our ability to provide fast recruitment with accurate matching and recommendation results, which may result in us and our clients wasting valuable resources on approaching and setting up interview sessions for unsuitable candidates. Only accurate, complete and timely information can support effective job recommendations and yield the most efficient recruitment results. If we fail to ensure the information provided by registered individual users of our platform are accurate, credible, complete and timely, our business and results of operations may be negatively affected.

We are subject to laws, regulations and policies imposed by various government and regulatory authorities which may affect the operations and/or scope of our business.

Our business operations are subject to various laws and regulations in the PRC. Please refer to the sections headed “Regulatory Overview” and “Business — Licences and Permits” in this document for further details. Compliance with these laws and regulations can be burdensome and impose limitations on our business and operations, for instance, in terms of the types of employees we can hire, the scope of activities we are able to carry out, the wages and benefits we are required to pay our employees, among others. Failure to comply with such laws and regulations related, but not limited, to wages, employment terms and benefits, insurance and housing provident fund and licences may result in fines and penalties imposed against us or our officers and employees, result in the cessation of business, or may otherwise have a material adverse effect on our business, financial condition, results of operations and prospects. Further, any changes in the laws, regulations or policies, or the interpretation

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thereof, in the jurisdictions where we operate or affecting the industry in which we operate, such as privacy regulations and foreign ownership restrictions, may limit our ability to source candidates, or result in the prohibition or restriction of certain types of HR services we are permitted to offer, or the imposition of new or additional licensing or tax requirements that could reduce our revenues and earnings. This in turn may have a negative effect on our business, financial condition, results of operations and prospects.

Compliance with any changes in existing or new government laws, regulations or policies may also increase our costs and any such significant increase in compliance costs may adversely affect our business, financial condition, results of operations and prospects if we are unable to pass on the increased costs to our clients. In addition, we cannot assure you that we would be able to comply with the requirements of any amended or new laws, regulations and policies in all material aspects. Any failure to comply with any amended or new laws, regulations and policies in all material aspects may result in fines or penalties against us or our officers and employees, result in the cessation of the affected business, or may otherwise have a material adverse effect on our business, financial condition, results of operations and prospects.

Certain parts of our work and processes and demand for human labor may risk being replaced by, or, as the case may be, disrupted by new technologies that may emerge.

We operate in an industry characterized by intense competition, rapidly developing technologies, evolving industry standards and frequent new product and service updates. New technologies may emerge and result in automation which may have the effect of replacing human labor especially for standard and low-end positions where our flexible staffing services are mainly needed. Accordingly, our clients may require less HR services as a result of such automation. If demand for our services from our clients is reduced due to the decrease in the demand for human labor, this could have an adverse effect on our business, financial condition, results of operations and prospects.

Further, new technologies may emerge and have the effect of replacing, or as the case may be, have a disruptive effect on certain parts of our work and processes. For example, artificial intelligence is increasingly becoming an accepted and important technology and AI-driven systems can rapidly process large amounts of data and execute transactions on a large scale, enabling decision-making capabilities that are generally not otherwise feasible or economical. As the cost of computational power decreases, AI-driven systems may render certain parts of our work and processes obsolete and ineffective, and effectively replace human labor. If we are unable to effectively reallocate our resources to other work and functions in our Group, this could have an adverse effect on our business, financial condition, results of operations and prospects.

Enhancing or updating legacy technologies and incorporating or integrating new technologies into our products and services may involve numerous technical challenges, substantial capital and personnel resources and significant time, and we may not be able to handle these challenges effectively due to factors outside of our control. Additionally, factors that affect the size and level of our user or client engagement may also affect our ability to keep up with technology and user expectations. Moreover, new technologies may not be

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successful or integrate well with our products and services, and even if integrated, may not function as expected or be able to attract and retain a substantial number of individual or corporate users and clients. Our failure to keep pace with technological advancements or adopt new technologies on a timely basis or appropriately in response to user and client demands may materially and adversely affect our business and operating results.

We depend on services provided by our outsourcing partners. Any failure of our outsourcing partners to perform their responsibilities or to be in compliance with all applicable laws and regulations may result in business disruption or negative impact on cost of our services.

We have outsourced certain aspects of our business to third party service providers to cover industries where we currently do not have expertise or when we encounter capacity constraints. While these arrangements may lower operation costs, they also reduce our direct control over service quality. We may experience operational difficulties with our outsourcing partners, including these outsourcing partners’ abilities to provide services that meet our clients’ needs, and to maintain consistent service quality. Moreover, our outsourcing partners may also experience disruption in their own operation due to labor strikes or shortages, natural disaster, cost increases or other issues outside of their control. We may not be able to renew contracts with our outsourcing partners or identify suitable partners who are capable of supplying services and the quality we demand. Any failure of our outsourcing partners to perform their responsibilities or to operate in compliance with all applicable laws and regulations may have a material negative impact on our cost or result in disruptions to our operations.

Content displayed on our platforms may be found objectionable by PRC regulatory authorities and may subject us to penalties and other administrative actions.

We are subject to PRC laws and regulations governing internet access and the distribution of information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet any content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or public interest or is obscene, superstitious, frightening, gruesome, offensive, fraudulent or defamatory. Failure to comply with these requirements may result in monetary penalties, revocation of licences to provide internet content or other licences, suspension of the concerned platforms and reputational harm. In addition, these laws and regulations are subject to interpretation by the relevant authorities, and it may not be possible to determine in all cases the types of content that could cause us to be held liable as an internet content provider.

Internet platform operators may also be held liable for the content displayed on or linked to its platform that is subject to certain restrictions. We may not be able to always keep internal procedures abreast of changes in the PRC government’s requirements for display of career related content on our online platform. Failure to identify and prevent illegal or inappropriate content from being displayed on our platform may subject us to liability, government sanctions or loss of licences and/or permits.

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To the extent that PRC regulatory authorities find any content displayed on our platforms objectionable, they may require us to limit or eliminate the dissemination of such content on our platforms in the form of take down orders or otherwise. In addition, regulatory authorities may impose penalties on us for content displayed on or linked to our platform in cases of material violations or lacking proper licence, including a revocation of our business licences or a suspension or shutdown of our online operations. Although we have not been penalized for our content so far, in the event that the PRC regulatory authorities find the content on our platforms objectionable and impose penalties on us or take other enforcement actions, our business, results of operations and reputation may be materially and adversely affected. Moreover, the costs of compliance with these regulations may continue to increase as a result of more content uploaded or linked to our platform by our users.

The integrity and reliability of our platform and services largely relies upon our ability to verify information relating to clients and job applicants and to detect fraud and fake information. If we fail to perform such obligations or meet the requirements of relevant laws and regulations, we may be subject to liabilities.

Under the PRC Contract Law, an intermediary that intentionally conceals any material facts or provides false information in connection with the conclusion of the proposed contract, which results in harm to the client’s interests, may not claim any service fee for its intermediary services and may be liable for any damage incurred by the client. In addition, according to the Provisions on Talent Market Administration (《人才市場管理規定》) (the “**Talent Provisions**”), in providing our professional recruitment services, we are prohibited from providing fake information, making false promises and publishing fake recruitment advertisement. Therefore, if any fake recruitment information or advertisement is provided through Xiang Recruitment Platform, we could be subject to liabilities as an intermediary under the PRC Contract Law and liabilities under the Talent Provisions. We may also face claims for negligence or other purported injuries resulting from such fake recruitment information, advertisement or the nature of our services. Such claims, with or without merit, may be expensive and time-consuming, result in significant diversion of resources and management attention from our operations, and adversely affect our brand image and reputation, which materially and adversely affect our business.

If we fail to obtain or maintain all required licences, permits and approvals or if we are required to take actions that are time-consuming or costly, our business operations may be materially and adversely affected.

Many aspects of our business operations are subject to various licences, permits and approvals as relating to the HR services industry and the VATS industry. The HR services industry and the VATS industry are highly regulated in China. Our failure to obtain and maintain requisite approvals, licences or permits applicable to our business or any changes in government policies or regulations may have an adverse impact on our business, financial condition and operational results. The PRC government regulates the HR services industry and the VATS industry extensively, including foreign ownership of, and the licensing requirements pertaining to, companies in the HR services industry and the VATS industry. A number of regulatory authorities, such as the MOFCOM, the MIIT, the SAMR, the MOHRSS, oversee different aspects of the HR services industry and the VATS industry. These regulatory

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authorities together promulgate and enforce laws and regulations that cover many aspects of the HR services and the VATS including entry into such industries, scope of permitted business activities, licences and permits for various business activities and foreign investments into such industries.

We are required to obtain and maintain applicable licences, permits and approvals from different regulatory authorities in order to conduct our existing or future business in connection with our provision of HR services and other related value-added services. The government authorities may continue to pass new rules regulating the internet sector and we have been continually expanding into new business operations. They may require us to obtain additional licences, permits or approvals so that we can continue to operate our existing or future businesses or otherwise prohibit our operation of the types of businesses to which the new requirements apply. In addition, new regulations or new interpretations of existing regulations may increase our costs of doing business and prevent us from efficiently delivering services and products over the internet and through mobile operators and expose us to potential penalties and fines. Lastly, our existing licences may expire without proper renewal or be revoked due to violations of relevant licensure maintenance requirements.

If any of our entities is deemed by governmental authorities to be operating without appropriate permits and licences or outside of their authorized scopes of business or otherwise fail to comply with relevant laws and regulations, we may be subject to penalties and our business and results of operation may be materially and adversely affected.

New services may subject us to additional risks.

From time to time, we may launch new services and functions to expand our business. For example, we are developing additional referral award function which fits into our existing WeChat Public Account platform and will also be accessible via the Rui Home Platform for our contract employees. The primary function of this add-on is to encourage job referrals among existing contract employees and award those who successfully refer others to a job posted on our Xiang Recruitment Platform. We also continually upgrade and improve existing functions and features of our platforms and apps. For example, the Rui Home Platform has many social networking features, including interactive exchanges of work stories, connecting users for online and offline group activities, providing market updates to new joiners and other employees, and providing a platform for registered individual users to share various information. These new services and functions are intended to diversify our service offerings and increase stickiness.

There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed to accommodate these new services. In developing and marketing new services, we may need to invest significant time and resources and we cannot assure you whether improving our technology and data capabilities will be successful or sufficient to offset the costs incurred to offer these services. Initial timetables for the introduction and development of new services may not be achieved and price and profitability targets may not prove feasible. We cannot predict whether our new services will be well-received by registered individual users and clients. External factors, such as

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compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new service. Failure to successfully manage these risks in the development and implementation of new services could have a material adverse effect on our business, results of operations and financial condition.

Our success depends on key management personnel and competent employees.

Our success is largely attributable to the continued commitment and contribution of our executive Directors and key senior management personal. Their extensive knowledge and experience in the HR services industry, as well as their established relationships with our clients, have played a major role in our attainments. There are no assurances that we will be able to retain these key personnel, and the loss of any of them without suitable and timely replacements, or the inability to attract and retain qualified personnel may adversely affect our business, results of operations, financial position and prospects.

In addition, we have to hire and retain internal employees, particularly project managers, with the necessary level of competence and knowledge of the HR services industry so as to maintain and expand our operations. In the future, we may encounter shortages of appropriately skilled personnel, which may hamper our ability to implement our strategies and materially and adversely affect our business and results of operations.

We face general risks associated with doing business outside the PRC.

We may expand into other areas outside the PRC in which we presently do not have a business presence. Please refer to the section headed “Business — Our Strategies — Continue to Expand Market Coverage in China and Globally” in this document for further details. There are risks which are inherent in doing business outside the PRC, such as unexpected changes in legislation, regulatory requirements and government policies, economic downturns, difficulties in staffing and managing foreign operations, social and political instability, controls and fluctuation in currency exchange and interest rates, potentially adverse tax consequences, legal uncertainty regarding liability, tariffs and other trade barriers, investment restrictions, variable and unexpected changes in local laws and barriers to the repatriation of capital or profits, any of which could affect our business, results of operations, financial condition and prospects.

Our business and future growth depend on the economic, political, legal, regulatory, social and other conditions in the jurisdictions which we decide to invest and operate. We have no control and can provide no assurance over changes in the conditions which we conduct our business, and any such changes or developments in the economic, political, legal, regulatory, social and other conditions may be detrimental to our business and could adversely affect our operations, financial performance and future growth in these countries.

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If our key performance indicators are inaccurate, the market may have inaccurate perception or wrong assessment about us, and our ability to form appropriate corporate growth strategies may be impaired and our business, results of operations and prospects may be materially and adversely affected.

We assess our operating performance using a set of key performance indicators, which include the number of active users on our Xiang Recruitment Platform, the number of registered individual users, the number of contract employees, contract employee turnover rate and the number of job postings. Capturing accurate data is subject to various limitations. There are inherent challenges in measuring candidate base and contract employee engagement across our platforms. Moreover, our measures of user base and user engagement may differ from methodologies used by third parties or similar metrics used by our competitors.

We, or our paid membership clients, may not always remove stale job postings available on our Xiang Recruitment Platform on a timely basis or at all, and we may not be able to detect and remove all disingenuous or illegitimate job postings. It is also possible there are duplicative job openings on our platform. These stale, disingenuous, illegitimate or duplicative job postings negatively affect the accuracy of certain of our performance indicators.

As a result, we cannot assure you that such key operating performance indicators always reflect our actual operating performance or our data collection technologies and tools always capture accurate data. If our key performance indicators are so inaccurate that our business results are grossly understated, the market might wrongly perceive us to be underperforming, which would adversely affect our share price. Conversely, if our business results are grossly overstated, investors may be misled in their investment decisions for which we have legal liabilities. In addition, if our key performance indicators are inaccurate, we may also incorrectly assess our operating performance and in turn make incorrect operational and strategic decisions. Failure to capture accurate data or an incorrect assessment of this data may materially harm our business and operating results.

We rely in significant part upon effective interoperation with mobile operating systems, networks, mobile devices which standards we do not control.

We make our apps available across a variety of mobile operating systems and devices. We are dependent on the interoperability of our apps with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that decrease the functionality of our apps or give preferential treatment to competing products may materially and adversely affect usage of our services. Further, if the number of platforms for which we develop our apps increases, which is typically seen in the dynamic and fragmented mobile internet market in China, it will result in an increase in our costs and expenses. In order to deliver high-quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices which standards that we do not control. If it becomes difficult for our users to access and use our services, particularly on their mobile devices, our user growth and user engagement could be harmed, which in turn may materially and adversely affect our business, financial position and results of operations.

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Failure to maintain, protect and enhance our brand or enforce our intellectual property right could harm our business and operating results.

We regard the protection of our trade secrets, copyrights, trademarks and domain names as critical to our success. In particular, we must maintain, protect and enhance the Xiang Recruitment Platform brand as well as our intellectual property rights associated with our proprietary technology and database. Our *Renrui* (人瑞) and Xiang Recruitment Platform brands are critical to expanding our base of individual and corporate users, and increasing their engagement with our online platform. Successful promotion of our brand will depend on our ability to continue to provide high-quality HR services, gain trust for our services, and attract new users and clients to our platform. This will also depend on the effectiveness of our marketing efforts and the user experience we provide through our platform. If we do not successfully maintain a strong brand, our business could be harmed.

We strive to protect our intellectual property rights by relying on applicable legal rights under PRC law, as well as contractual restrictions. We typically enter into confidentiality agreements with our employees, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others and halt any copycat attempts. Failure to protect our brand may materially and adversely harm our business and results of operations.

We may be vulnerable to intellectual property infringement claims brought against us by others.

We rely on third-party intellectual property to operate our business to some extent, such as licences to use software and copyrights. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we face a higher risk of being subject to intellectual property infringement claims. A successful infringement claim against us could result in monetary liability or a material disruption in the conduct of our business. Although we require our employees not to infringe others’ intellectual property, we cannot be certain that our products, services, content and brand name do not or will not infringe on valid patents, trademarks, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business.

We may incur substantial expenses in defending against third-party infringement claims, regardless of their merit. As a result, due to diversion of management time, expenses required to defend against any claim and the potential liability associated with any lawsuit, any significant litigation could significantly harm our business, financial condition and results of operations. If we were found to have infringed on the intellectual property rights of a third party, we could be liable to that party for licence fees, royalty payments, lost profits or other damages, and the owner of the intellectual property may be able to obtain injunctive relief to prevent us from using the technology, software or brand name in the future. If the amount of these payments were significant, if we were prevented from incorporating certain technology

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or software into our products or services or if we were prevented from using our brand name, our business could be significantly harmed. During the Track Record Period and up to the Latest Practicable Date, we were subject to and settled, six claims relating to infringement or other intellectual property dispute amounting to RMB127,900. Please refer to the section headed “Business — Legal Proceedings and Compliance” for details.

We may not continue to receive government grants, preferential tax treatments or rent-free and subsidized properties from government authorities.

Our operating costs are partially defrayed by government grants, preferential tax treatments and rent-free and subsidized properties granted by certain government authorities in the PRC, such as government subsidies from certain government authorities, or income tax exemption qualified by a subsidiary of our Group, as an incentive to encourage HR services providers to relocate their operations to various HR services industrial parks and as part of government initiatives to encourage the development of software development industry in China. In aggregate, government grants and subsidies we received amounted to approximately RMB2.0 million, RMB6.3 million, RMB9.1 million and RMB5.2 million in 2016, 2017, 2018 and for the six months ended June 30, 2019, respectively, and a subsidiary of our Group qualified for a tax exemption of RMB14.1 million in 2018. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations” in this document for further details.

In addition, during the Track Record Period, we obtained rent-free properties of approximately 1,000 sq.m. from the Yingkou municipal government and subsidized properties of approximately 3,000 sq.m. from the Shangrao municipal government for our BPO services in exchange for our commitment to their respective local job markets. However, such rent-free and subsidized properties are typically provided for a set period of time and there is no guarantee that we will be able to continue renting there or similar properties with rent waived in the future.

In the event that we do not receive government grants or rent-free or subsidized properties provided by the various local governments, or if the conditions or contingencies for the relevant government grant or rent-free or subsidized properties change, or if such subsidiary of our Group fails to maintain its qualification for the preferential tax treatment, our financial results may be adversely affected.

We may face risk of recoverability of deferred income tax assets.

We recorded deferred income tax assets of RMB23.0 million, RMB22.5 million, RMB26.1 million, and RMB22.2 million as of December 31, 2016, 2017, 2018, and June 30, 2019, respectively. Deferred income tax assets relating to certain temporary differences and tax losses are recognized when we consider it probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilized. However, the outcome of their actual utilization may be different from our estimation. While the deferred income tax assets may enable us to reduce future tax payments, our deferred income tax

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assets may also pose a risk to us as their recoverability depends on our ability to generate future taxable profit. We cannot guarantee the recoverability or predict the movement of our deferred income tax assets. If we fail to recover our deferred tax assets, this may adversely affect our financial positions in the future.

Our net current liabilities and negative cash flows from operating activities may expose us to certain liquidity risks and could constrain our operational flexibility as well as adversely affect our ability to expand our business.

For the years ended December 31, 2016 and 2017, we recorded net current liabilities in the amount of approximately RMB33.5 million and RMB10.1 million, respectively. Please refer to the section headed “Financial Information — Current Assets and Current Liabilities” in this document for further details. For the year ended December 31, 2016, we had net cash outflows for our operating activities of RMB16.9 million. Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Cash Flows” in this document for further details. We may record net current liabilities and net operating cash outflows again in the future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on additional external fundings. If adequate funds are not available, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, financial condition and results of operations may be materially and adversely affected.

We recorded net losses and had total deficit positions throughout the Track Record Period.

We have incurred net losses historically and may incur losses in the future as we grow our business. We recorded net losses of RMB35.4 million, RMB44.0 million, RMB136.9 million, and RMB229.2 million, respectively, in 2016, 2017, 2018 and the six months ended June 30, 2019. The historical losses of our Group since 2017 were primarily attributable to fair value loss of hybrid financial instrument, which were not part of our operating activities. In 2016, we recorded an operating loss of RMB42.4 million, primarily due to significant expenses as a percentage of our revenue being incurred for selling and marketing and R&D as we increased our sales efforts and expanded our business. We expect to continue to incur selling and marketing and R&D expenses in the future, along with growing our business, which could affect our profitability.

As of December 31, 2016, 2017, 2018, and June 30, 2019, we had total deficits of RMB113.4 million, RMB151.2 million, RMB299.4 million, and RMB532.1 million, respectively, which were mainly attributable to RMB125.4 million, RMB187.6 million, RMB402.2 million, and RMB684.9 million, respectively, of hybrid financial instruments, comprising convertible bonds and preferred shares, which are accounted for as financial liabilities at fair value on the consolidated balance sheets. Increases in fair value are recognized as fair value loss on the consolidated income statements. We expect that we will still recognize fair value losses on hybrid financial instruments subsequent to the Track Record Period and prior to the [REDACTED]. Upon the [REDACTED], all Preferred Shares will be automatically converted

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into fully paid and non-assessable ordinary shares on a one-to-one basis, and will be re-designated from liabilities to equity. Therefore, no further fair value losses on issued hybrid financial instruments will incur after the [REDACTED]. Under Cayman Islands Law, we may declare dividends out of our profits or our share premium account, provided that we will be able to pay our debts as they fall due in the ordinary course of business. Our accumulated losses and total deficit position may adversely affect our ability to declare and pay dividends after the [REDACTED] by reducing one of the sources for potential dividend declaration and payment.

We may be unable to obtain future financing on favorable terms, or at all, to fund expected capital expenditure, potential opportunistic acquisitions and working capital requirements.

We may at some stage in the future require funding for capital expenditure, potential opportunistic acquisitions or working capital requirements. The actual amount and timing of future financing may depend on several factors, among others, new business opportunities, opportunities for inorganic growth, regulatory changes, economic conditions, technological changes and market developments. Our sources of additional funding, if required, may include the incurrence of debt or the issue of equity or debt securities or a combination of both. If we decide to raise additional funds through the incurrence of debt, our interest and debt repayment obligations will increase, and this could have a significant effect on our profitability and cash flows and we may be subject to additional covenants, which could limit our ability to access cash flows from operations.

Similarly, our working capital requirements may increase due to various factors including growth in our businesses. In case there are insufficient cash flows to meet our working capital requirements or we are unable to arrange the same from other sources or there is delay in disbursement of arranged funds, it may adversely affect our operations and profitability. These factors may result in us having to raise short-term borrowings. If there is any increase in the interest rates for such borrowings, it may adversely affect our operations and profitability. A disproportionate increase in our working capital requirements may result in us incurring borrowing costs, which may have a material and adverse effect on our financial condition and results of operations.

Further, our ability to arrange for additional funds on acceptable terms is subject to a variety of uncertainties, including future results of operations, financial condition and cash flows; economic, political conditions and market demand for our services; costs of financing, liquidity and overall condition of financial and capital markets in China and internationally; receipt of applicable business licences, approvals and other risks associated with our businesses; and limitations on our ability to raise capital in capital markets and conditions of China and other capital markets. Any such inability could have a material adverse effect on our business and results of operations.

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We face certain risks relating to the real properties that we lease.

We lease real properties from third parties in China for our office and other uses such as holding recruitment events in China. Some of the ownership certificates or other similar proof of ownership of certain leased properties have not been provided to us by the relevant lessors. Therefore, we cannot assure you that such lessors are entitled to lease the relevant real properties to us. Please refer to the section headed “Business — Properties” in this document for details about the premises used in our business operation. If the lessors are not entitled to lease the real properties to us and the owners of such real properties decline to rectify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease such properties under the respective lease agreements against the owners. As of the Latest Practicable Date, we are not aware of any claim or challenge brought by any third parties concerning the use of our leased properties from the lessors not entitled to lease the real properties to us.

The term of our lease with property owners are usually for no more than six years. If the property owners refuse to renew our lease, we cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our operations in a timely manner, our operations may be interrupted.

The lease agreements for some of our leased properties have not been registered with the PRC governmental authorities as required by the PRC laws. Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such non-compliance and, if such non-compliance were not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for our lease agreements that have not been registered with the relevant PRC governmental authorities. Please refer to the section headed “Business — Properties” in this document for further details.

As of the Latest Practicable Date, we are not aware of any regulatory or governmental actions, claims or investigations being contemplated or any challenges by third parties to our use of our leased properties or those lease agreements which have not been registered with the government authorities. However, we cannot assure you that the government authorities will not impose fines on us due to our failure to register any of our lease agreements, which may negatively impact our financial condition.

We have limited business insurance coverage.

We maintain various insurance policies such as group personal accident insurance and corporate employee benefits insurance. However, our insurance coverage is still limited in terms of amount, scope and benefit. Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. In line with general HR services industry in China, we do not have any business liability or disruption insurance to cover our business operations. Any uninsured

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business disruption, litigation or legal proceedings or natural disaster, such as epidemics, pandemics or earthquakes, or other events beyond our control could result in substantial costs and the diversion of our management’s attention. Our business, financial condition and results of operations may be materially and adversely affected as a result.

We are exposed to fair value changes for financial instruments as their determination involves the use of unobservable inputs, and our financial results for 2019 could be adversely affected by the realization of potential fair value loss on the hybrid financial instruments.

Our hybrid financial instruments include convertible bonds and convertible redeemable preferred shares, which are carried at fair value and gains or losses arising from changes in the fair value of any such hybrid financial instruments will be reflected in our results of operations in the period in which they arise, and the issue costs that are directly attributable to the issue of such instruments, designated as financial liabilities at fair value through profit and loss, are recognized immediately in the consolidated income statements. To assess the fair value of our hybrid financial instruments requires the use of judgments and unobservable inputs, such as risky interest rate, discount rate, risk-free interest rate, discount for lack of marketability, and expected volatility, which are unpredictable by nature and inherently involve a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use, and changes in any of the inputs above could affect the fair value of our hybrid financial instruments.

The non-cash fair value losses on our hybrid financial instruments in 2016, 2017 and 2018 and the six months ended June 30, 2019 were RMB1.9 million, RM53.9 million, RMB196.5 million and RMB277.8 million, respectively. We expect that we will record a significant fair value loss on the hybrid financial instruments for 2019, which could have a material adverse impact on our profit for that year. Upon the [REDACTED], the Preferred Shares will be converted into Shares on a one-to-one basis, and there will be no fair value gain or loss associated with the Preferred Shares for any financial period after December 31, 2019 on the assumption that our [REDACTED] will be completed on or before December 31, 2019. Please refer to the section headed “Financial Information — Significant Accounting Policies — Hybrid Financial Instruments” in this document for further details.

We have granted share options under the [REDACTED] Share Option Schemes, and may grant additional share-based awards in the future pursuant to the [REDACTED] Share Option Scheme and the [REDACTED] Share Award Scheme which may result in increased share-based compensation expenses and dilution to the shareholding of existing shareholders.

We have conditionally adopted the [REDACTED] Share Option Schemes for the purpose of granting options to, among others, certain of our mid-senior level management members and non-managerial employees to reward their contribution to the Group, to incentivize their performance, and to align their interests with ours. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees. As of the Latest Practicable Date, we have granted [22,904,600] options to our employees under the [REDACTED] Share Option Schemes which are subject to the relevant

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vesting periods. We have incurred share-based compensation expenses of approximately RMB76,000, RMB213,000, RMB1,543,000 and RMB1,673,000 for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, respectively, and we may grant additional share-based awards under the [REDACTED] Share Option Scheme and the [REDACTED] Share Award Scheme. Any additional grant of share-based awards, including options under the [REDACTED] Share Option Scheme and share awards under the [REDACTED] Share Award Scheme by us, will further increase our share-based compensation expenses, and dilute existing shareholders' shareholding. The [REDACTED] account for approximately [REDACTED]% of our issued share capital immediately upon the completion of the [REDACTED] and assuming no exercise of the [REDACTED], such Shares will be diluted to (1) approximately [REDACTED]% of our issued share capital if all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised (assuming (i) no exercise of the options which may be granted under the [REDACTED] Share Option Scheme and (ii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme); (2) approximately [REDACTED]% of our issued share capital if all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised and all the options which may be granted under the [REDACTED] Share Option Scheme are granted and exercised (assuming no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme); and (3) approximately [REDACTED]% of our issued share capital if all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised and all the options which may be granted under the [REDACTED] Share Option Scheme are granted and exercised, and all award shares which may be granted under the [REDACTED] Share Award Scheme are granted and new Shares are allotted and issued by our Company. Please refer to the sections headed “Statutory and General Information — D. Share Option Schemes” and “Statutory and General Information — E. [REDACTED] Share Award Scheme” in Appendix IV to this document for further details.

Natural disasters, diseases, terrorist attacks, or armed conflicts and increased hostilities may adversely affect our physical offices, our internet access, telecommunications networks, our technology platforms and our financial performance.

Natural disasters (including earthquakes, typhoons and tsunamis), outbreak of diseases, terrorist attacks or armed conflicts and increased hostilities adversely affect the regional and global financial markets adversely affect our physical offices, our internet access, telecommunications networks, our technology platforms and our financial performance. These events could also directly impact the offices where we conduct business, as well as the telecommunications companies and other third party service providers on whom we rely for bandwidth and other services. We also operate in city centers with high population density which is often the target of terrorist attacks. There can be no guarantee that such events will not occur in the future, and the occurrence of any of these events may result in a loss of business confidence or result in disruptions to our business operations, both of which may materially and adversely affect our business, financial performance and financial condition.

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Any outbreak of communicable disease in the PRC or cities, in which we operate, could have an adverse effect on our business. If any of our employees are affected by any communicable disease outbreaks, we may be required to temporarily shut down our offices and to prohibit our employees from going to work to circumvent the spread of the disease. If such events occur, we may take a longer time and/or fail to deliver our services. Failure to meet our clients’ expectations can damage our reputation and may lead to loss of business and may affect our ability to attract new clients which in turn may adversely affect our prospects, business, operations and financial results.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

The PRC government may determine that the Modified Contractual Arrangements do not comply with applicable PRC laws and regulations, which may subject us to severe penalties, and our business may be materially and adversely affected.

PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in a number of business activities, including VATS. In particular, under the Catalogue and the Old Negative List, our Shanghai Renrui Recruitment Services and Client Service Representative BPO Services involve the provision of the VATS. The VATS (except for operating e-commerce business) was categorised as a “restricted” category under the Old Negative List, which is therefore subject to a restriction on foreign ownership of not holding more than 50%. Based on the Old Negative List and MIIT Consultations, it is not feasible for our Company or its subsidiaries to hold the maximum equity interest permissible in Chengdu Tianfu (certain wholly-owned subsidiaries of which hold the VATS Licences) and/or its subsidiaries. Therefore, we entered into the Modified Contractual Agreements pursuant to which our wholly owned subsidiary, Chengdu Qicheng WFOE, has the right to receive substantially all of the economic benefits from our Consolidated Affiliated Entities. Please refer to the section headed “Contractual Arrangements” in this document for further details and the subsequent development in response to the New Negative List. We may enter into similar arrangements during the future expansion of our business.

If the Modified Contractual Arrangements that establish the structure for operating our Relevant Businesses and/or holding the VATS Licences in the PRC are found to be in violation of any PRC laws or regulations in the future or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the authority which regulates the VATS industry, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licences of the relevant Consolidated Affiliated Entities we control through the Modified Contractual Arrangements;
- discontinuing or restricting the operations of any related-party transactions among the relevant Consolidated Affiliated Entities we control through the Modified Contractual Arrangements and the other members of our Group;

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- imposing fines or other requirements with which we or our PRC Subsidiaries and the relevant Consolidated Affiliated Entities controlled through the Modified Contractual Arrangements may not be able to comply;
- requiring us to restructure our operations in such a way as to compel us to establish new entities, re-apply for the necessary licences or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply;
- restricting the use of [REDACTED] from the initial [REDACTED] or other financing activities we may conduct to finance our business and operations in China; or
- restricting or prohibiting our Group from receiving the service fees under the Modified Contractual Arrangements.

If any of the above penalties or restrictions is imposed on us, our business, financial position, results of operations and prospects may be materially and adversely affected. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our Consolidated Affiliated Entities or our right to receive their economic benefits, we would no longer be able to consolidate such entities, which currently contribute a substantial amount of our consolidated revenues.

Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People’s Congress approved the 2019 FIL, which will come into effect on January 1, 2020. The 2019 FIL will replace the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》) to become the legal foundation for foreign investment in the PRC. The 2019 FIL defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations (“**Foreign Investor(s)**”), and specifically stipulates four forms of investment activities as foreign investment, namely, (a) establishment of a foreign invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor; (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor; and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

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Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licences and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. Although the 2019 FIL stipulates four forms of investment activities as foreign investment, the 2019 FIL does not explicitly stipulate contractual arrangements as a form of foreign investment.

Notwithstanding the above, the 2019 FIL stipulates that foreign investment shall include “investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council”. Therefore, the following matters remain uncertain: (i) whether future laws, administrative regulations or provisions of the State Council may further stipulate that contractual arrangements would constitute foreign investment and be examined; (ii) whether our Modified Contractual Arrangements will be recognized as foreign investment; and (iii) whether our Modified Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Modified Contractual Arrangements will be handled.

In the worst scenario, we may be required to unwind the Modified Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our business, financial condition and result of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding of the Modified Contractual Arrangements or disposal or such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material and adverse effect on the trading of our Shares or even result in [REDACTED] of our Company. For details of the 2019 FIL and its potential impact on our Company, please refer to the section headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this document.

Therefore, there is no guarantee that our Modified Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future.

Our Modified Contractual Arrangements may not be as effective in providing control over the Consolidated Affiliated Entities as direct ownership.

We have relied and expect to continue to rely on the Modified Contractual Arrangements to operate the Relevant Businesses and/or hold the VATS Licences in China. Please refer to the section headed “Contractual Arrangements” in this document for further details. The Modified Contractual Arrangements may not be as effective in providing us with control over such businesses as a direct equity ownership structure. If we had ownership of the equity interests in our Consolidated Affiliated Entities, we would be able to exercise our rights as a direct or indirect holder of the equity interest in our Consolidated Affiliated Entities to effect changes in the board of directors of our Consolidated Affiliated Entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under our Modified Contractual Arrangements, if our Consolidated Affiliated Entities

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or the Registered Shareholders fail to perform their respective obligations under the Modified Contractual Arrangements, we cannot exercise the shareholders’ rights to direct such corporate action as we would if we had direct ownership of the equity interests in our Consolidated Affiliated Entities.

If the parties under the Modified Contractual Arrangements refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the operations of our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. If we were to lose effective control over our Consolidated Affiliated Entities, it may negatively influence our ability to consolidate the financial results of our Consolidated Affiliated Entities with our financial results. Given that revenue from our Consolidated Affiliated Entities constitutes a substantial amount of the revenue in our consolidated financial statements for the years ended December 31, 2016, 2017 and 2018, our financial position would be materially and adversely impacted if we were to lose effective control over our Consolidated Affiliated Entities. In addition, losing effective control over our Consolidated Affiliated Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our Consolidated Affiliated Entities may impair our access to their cash flow from operations, which may reduce our liquidity.

The owners of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our control over our Consolidated Affiliated Entities is based upon the Modified Contractual Arrangements we have entered into with, among others, Chengdu Qicheng WFOE, our Consolidated Affiliated Entities and the Registered Shareholders. The Registered Shareholders may potentially have conflicts of interest with us and breach their contracts or undertakings with us if it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us on the one hand, and the other parties to the Modified Contractual Arrangements in respect of our Consolidated Affiliated Entities on the other hand, the Registered Shareholders will act completely in our interest or that the conflicts of interest will be resolved in our favor. In the event that such conflicts of interest cannot be resolved in our favor, we would have to rely on legal proceedings which could result in disruption to our business and we are subject to uncertainty as to the outcome of any such legal proceedings. If we are unable to resolve such conflicts, our business, financial conditions and results of operations could be materially and adversely affected.

Our exercise of the option to acquire the equity interests in and/or the relevant assets of Chengdu Tianfu may be subject to certain limitations and we may incur substantial costs.

Pursuant to the Modified Contractual Arrangements, when the relevant foreign ownership restriction is lifted, we will need to unwind the Modified Contractual Arrangements by acquiring the equity interest in Chengdu Tianfu. The equity transfer may be subject to the approvals from and filings with the MOFCOM, the MIIT, the SAMR and/or their local competent branches. We cannot assure you that we will successfully obtain the approvals from the relevant government

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authorities in the future. If the relevant foreign ownership restriction is lifted, we may be unable to unwind the Modified Contractual Arrangements by acquiring the equity interest in Chengdu Tianfu before we are in a position to comply with the approval and filings requirements. If we otherwise attempt to unwind the Modified Contractual Arrangements by acquiring the equity interest in Chengdu Tianfu before we satisfy the approval and filings requirements, we may be considered by the regulatory authorities as ineligible to operate the Relevant Businesses and/or to hold the VATS Licences and forced to cease operation of our Consolidated Affiliated Entities, which could have a material adverse effect on our business, financial conditions and results of operations.

In addition, we may incur substantial costs in the exercise of the option to acquire the equity interests in and/or the relevant assets of Chengdu Tianfu. Pursuant to the Modified Contractual Arrangements, Chengdu Qicheng WFOE has the exclusive right to require the Registered Shareholders to transfer their equity interests in and/or the relevant assets of Chengdu Tianfu, in whole or in part, to Chengdu Qicheng WFOE or its designated third party at any time and from time to time, at the lowest price allowed under the PRC laws and regulations at the time of transfer. If the relevant PRC authorities determine that the purchase prices for acquiring such equity interests and/or assets are below the market value, they may require Chengdu Qicheng WFOE or its designated third party to pay enterprise income tax with reference to the market value. The amount of the tax may be substantial, which could materially and adversely affect our business, financial conditions and results of operations.

Our Modified Contractual Arrangements may be subject to scrutiny by PRC tax authorities and additional tax may be imposed, which may materially and adversely affect our results of operations and the value of your investment.

Under the applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the terms of any of our Modified Contractual Arrangements do not represent an arm’s-length price and adjust any of the Consolidated Affiliated Entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, the PRC tax authorities may have reason to believe that our subsidiaries or Consolidated Affiliated Entities are avoiding/evading their tax obligations, and we may not be able to rectify such contravention within the time limit set by the PRC tax authorities or at all. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which could materially and adversely affect our business, financial conditions and results of operations.

We may not be able to meet the VATS Qualification Requirement and our plan to unwind the Modified Contractual Arrangements may be subject to certain limitations.

According to the Regulations for the Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), foreign investor who invests in VATS in the PRC must possess the VATS Qualification Requirement. The MIIT issued a guidance memorandum on its official website in relation to the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC.

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According to this guidance memorandum, an applicant is required to provide satisfactory proof of the VATS Qualification Requirement. The guidance memorandum, however, does not purport to provide an exhaustive list on the application requirement. As confirmed through the MIIT Consultations, no applicable PRC laws or regulations or rules provides clear guidance or interpretation on the VATS Qualification Requirement. Furthermore, the MIIT has not provided any guidance on, among others, the interpretation and implementation of the New Negative List and the impact of the New Negative List on the VATS Qualification Requirement.

Despite the lack of clear guidance or interpretation on the VATS Qualification Requirement, we have been gradually building up our track record of overseas VATS operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Chengdu Tianfu when the relevant PRC laws and authorities allow foreign investors to invest and hold (or to increase, as applicable) equity interests in enterprises which engage in VATS and/or hold the VATS Licences. Please refer to the section headed “Contractual Arrangements — Qualification Requirements” in this document for further details.

As the steps taken by us to fulfil the VATS Qualification Requirement are subject to the competent authority’s substantive discretion and their interpretation and implementation of the New Negative List, we cannot assure you that we will be able to meet the VATS Qualification Requirement in the future timely and the plan we have adopted will be sufficient to satisfy the VATS Qualification Requirement. Notwithstanding our Group plans to unwind and terminate the Modified Contractual Arrangements as soon as practicable to the extent permissible under relevant PRC laws and regulations and when the relevant government authority grants the VATS Licences to sino-foreign equity joint ventures or wholly foreign owned enterprises which are established or to be established by our Company, we may be unable to unwind the Modified Contractual Arrangements before we are in a position to comply with the VATS Qualification Requirement. If we otherwise attempt to unwind the Modified Contractual Arrangements before we satisfy the VATS Qualification Requirement, we may be considered by the regulatory authorities as ineligible for provision of our VATS, which could have a material adverse effect on our business, financial condition and results of operations.

Substantial uncertainties exist with the regulations regarding foreign ownership restrictions and how the New Negative List may impact the viability of our current corporate structure, corporate governance and business operations.

PRC laws and regulations regarding foreign ownership restrictions are subject to changes and the PRC governmental authorities may change such laws and regulations or promulgate new laws and regulations in the future. The interpretation and enforcement of such laws, regulations and rules involve substantial uncertainties. We cannot assure you that the provision of services by our Consolidated Affiliated Entities would not be deemed to violate any applicable PRC laws and regulations in future as a result of any change in laws and regulations, which could have a material adverse effect on our business, financial condition and results of operations.

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On June 30, 2019, the MOFCOM and the National Development and Reform Commission issued the New Negative List, which took effect on July 30, 2019 and superseded the Old Negative List. The Old Negative List imposed a restriction on foreign ownership of not holding more than 50% in VATS (except for operating e-commerce business), while the New Negative List now expands the exception into the operation of e-commerce business, domestic multi-party communications, storage and forwarding services, and call centers. As advised by our PRC Legal Advisor, the effect of the New Negative List on our Group is that the restrictions on foreign ownership percentage to no more than 50% no longer apply to (i) call center services, i.e. the Client Service Representative BPO Services currently conducted by Liaoning Renrui and (ii) the holder of the VATS Call Center Licence, i.e. Beijing Ruilian. In order to narrowly tailor our VIE structure in accordance with the Stock Exchange’s listing decision HKEx-LD43-3 in light of the New Negative List, Liaoning Corporate (an indirect wholly-owned subsidiary of our Company) has submitted the VATS Call Center Licence Application to the MIIT on September 23, 2019.

Despite our efforts to comply with the Stock Exchange’s listing decision HKEx-LD43-3, Liaoning Corporate may still not be able to obtain the VATS Call Center Licence. In the event that the VATS Call Center Licence Application is rejected by the MIIT, we will not be able to transfer the businesses of Liaoning Renrui (which is conducting the Client Service Representative BPO Services that would require the VATS Call Center Licence) and Beijing Ruilian (which is a holder of the VATS Call Center Licence) to Liaoning Corporate and we may not be able to narrowly tailor our VIE structure in accordance with the Stock Exchange’s listing decision HKEx-LD43-3. If we otherwise attempt to effect such transfer without governmental approval, the operation of Liaoning Corporate may be considered by the regulatory authorities as not in strict compliance with the applicable PRC laws and regulations, which could have a material adverse effect on our business, financial condition and results of operations.

Certain terms of the Modified Contractual Arrangements may not be enforceable under PRC laws.

The Modified Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission in Beijing, the PRC. The Modified Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interests in and/or assets of Chengdu Tianfu, award injunctive relief and/or order the winding up of Chengdu Tianfu. In addition, the Modified Contractual Arrangements contain provisions to the effect that courts in Hong Kong, the Cayman Islands and the PRC are empowered to grant interim remedies against the equity interests in and/or assets of Chengdu Tianfu. However, we have been advised by our PRC Legal Advisor that under PRC laws, an arbitral body does not have the power to grant injunctive relief or provisional or final winding-up order in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Modified Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of the relevant equity interests and/or assets in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts or judicial authorities in the PRC generally would not grant injunctive relief or a

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winding-up order against Chengdu Tianfu as interim remedies to preserve the equity interests and/or assets of Chengdu Tianfu in favor of Chengdu Qicheng WFOE. Our PRC Legal Advisor is also of the view that, even though the Modified Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or enforcement orders in support of arbitration, such interim remedies or enforcement orders (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may not be recognized or enforced by PRC courts. As a result, in the event that our Consolidated Affiliated Entities or any of the Registered Shareholders breaches any of the Modified Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our Relevant Businesses could be materially and adversely affected. Please refer to the section headed “Contractual Arrangements — Summary of the Material Terms of the Modified Contractual Arrangements — Dispute Resolution” in this document for further details on the enforceability of the dispute resolution provisions in the Modified Contractual Arrangements as opined by our PRC Legal Advisor.

We rely on dividend and other payments from Chengdu Qicheng WFOE and Xinan Renrui to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of Chengdu Qicheng WFOE or Xinan Renrui to pay dividends to us would materially and adversely limit our ability to pay dividends to our Shareholders.

Our Company is a holding company and our ability to pay dividends and other cash distributions to our Shareholders, settle any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividends and other distributions from Chengdu Qicheng WFOE and Xinan Renrui. The income of Chengdu Qicheng WFOE in turn depends on the service fees paid by our Consolidated Affiliated Entities. However, there are restrictions under PRC laws for the payment of dividends to us by Chengdu Qicheng WFOE and Xinan Renrui. For example, under PRC laws and regulations, Chengdu Qicheng WFOE and Xinan Renrui are required to set aside at least 10% of their after-tax profits based on PRC accounting standards each year to fund a statutory reserve until the accumulated amount of such reserve has exceeded 50% of their registered capital. Consequently, Chengdu Qicheng WFOE and Xinan Renrui are restricted in their ability to transfer a portion of their net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. The foregoing restrictions on the ability of Chengdu Qicheng WFOE and Xinan Renrui to pay dividends to us and the limitations on the ability of our Consolidated Affiliated Entities to pay service fees to Chengdu Qicheng WFOE could materially and adversely limit our ability to pay dividends to our Shareholders.

If any of our Consolidated Affiliated Entities becomes subject to winding up or liquidation proceedings, we may lose the ability to use certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

We currently conduct our business in China partly through our Modified Contractual Arrangements. As part of these arrangements, certain of our assets, permits and licences that are important to the operation of our business are held by our Consolidated Affiliated Entities. If any of these Consolidated Affiliated Entities is wound up, and all or part of their assets

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become subject to liens or rights of third-party creditors or are distributed to other persons of higher priority than the shareholders of the companies in accordance with the applicable PRC laws and regulations, we may be unable to continue some or a substantial part of our business activities, which could materially and adversely affect our business, financial conditions and results of operations. If any of our Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding as provided by the applicable PRC laws and regulations, our Consolidated Affiliated Entities may be required to distribute their assets to other persons of higher priority than the shareholders of the companies, or its equity owner or unrelated third-party creditors may claim rights relating to some or all of these assets. This would hinder our ability to operate our business and could materially and adversely affect our business, our ability to generate revenue and the market price of our Shares. While each of the shareholders of our Consolidated Affiliated Entities undertakes pursuant to the Modified Contractual Arrangements that in the event of dissolution or liquidation of our Consolidated Affiliated Entities, Chengdu Qicheng WFOE or its designated third party shall have the right to exercise all shareholders’ rights on behalf of the shareholders of our Consolidated Affiliated Entities and instruct all of our Consolidated Affiliated Entities to transfer assets directly to Chengdu Qicheng WFOE or its designated third party before such dissolution or liquidation, we may not be able to exercise our rights in a timely manner and our business, financial conditions and results of operations may be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS IN THE PRC

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

Substantially all of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in the PRC. In particular, the PRC Government continues to exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC Government has implemented measures emphasizing the utilization of market forces in reforming the economy. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may have an adverse effect on us.

While China’s economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained or is sustainable. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. The growth rate of China’s real GDP has decreased gently from 7.3% in 2014 to 6.9% in 2015, 6.7% in 2016, 6.9% in 2017 and 6.6% in 2018, according to CIC. In addition, economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the

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expected or perceived overall economic growth rate in China. An unfavorable financial or economic environment in recent years, including as a result of continued global financial uncertainties and the tension of trade war between China and the United States, have had and may continue to have an adverse impact on investors’ confidence and financial markets in China. The market uncertainty and tension surrounding the trade war continue to build up and intensify as neither side has been willing to move forward with the trade negotiations. On May 10, 2019, the U.S. increased tariffs on selective Chinese products from 10% to 25%, with the view of eventually implementing new tariffs of 25% on virtually all remaining Chinese products. As retaliation, China also announced new tariff increase on certain U.S. goods on May 13, 2019 to be effective from June 1, 2019. Such volatile market conditions as a result of international politics can create lasting impacts to the industries our clients operate in and negatively affecting their demand for our services due to decreased number of projects. Moreover, concerns over capital market volatility, issues of liquidity, inflation, geopolitical issues, the availability and cost of credit and concerns about the rate of unemployment have resulted in adverse market conditions in China. The underlying difficulty in forecasting the direction and strength of economic cycles, as well as social conditions continue to impede our ability to predict future demands for our services. Any severe or prolonged slowdown or instability in the global or China’s economy may materially and adversely affect our business, financial condition and results of operations.

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

PRC laws and regulations are based on written statutes, and past court judgments may be cited only for reference. Since 1979, the PRC Government has committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing economic matters, such as in foreign investment, company organization and management, business, tax and trade. However, as these laws and regulations are still evolving, and there are limited number and non-binding nature of published cases, the interpretations of many laws, regulations and rules are not always consistent and enforcement of these laws, regulations and rules involves uncertainties.

In particular, PRC laws and regulations concerning the HR services industry and VATS industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating the HR services industry and VATS industry in the future. We cannot assure you that our business would not be deemed to violate any new PRC laws or regulations relating to HR services industry and VATS industry. Moreover, developments in the HR services industry and VATS industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may limit or restrict HR service providers like us, which could materially and adversely affect our business and operations.

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From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and to evaluate the level of legal protection we enjoy compared with more developed legal systems. Furthermore, the PRC legal system is heavily based on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

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

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

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our Shareholders and have a material adverse effect on our results of operations and the value of your investment.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “*de facto* management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “*de facto* management body” as the body that exercises full and substantial control over and overall management of the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “*de facto* management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like our Company and our non-PRC subsidiaries, the criteria set out in the circular may reflect the SAT’s general position on how the “*de facto* management body” test should be applied in determining the tax resident status of all offshore enterprises.

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According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “*de facto* management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and HR matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China are a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “*de facto* management body”. As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then we or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which would materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realised on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in our Shares.

Dividends payable by us to our foreign investors and gains on sale of our Shares may be subject to withholding tax under the PRC tax laws.

Under the EIT Law and its implementation rules, we might be deemed as a PRC resident enterprise by the PRC tax authorities for tax purposes. As a result, dividends payable by us and gains obtained from sales of our Shares will be subject to PRC withholding tax since such income may be regarded as the PRC-sourced income. Under the circumstances, aforementioned dividends and gains obtained by our foreign corporate Shareholders, who are not deemed as PRC resident enterprises, may be subject to a 10% withholding income tax under the EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential tax rate under relevant tax treaties.

If the PRC tax authorities deem us to be a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties need to apply to the PRC tax authorities to be recognized as eligible for such benefits in accordance with the Announcement of the SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》) (the “Circular 60”), which was issued on August 27, 2015 and amended on June 15, 2018. According to the Circular 60, the preferential tax rate does not automatically apply. With

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respect to dividends, the “beneficial owner” tests under the Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties (《關於如何理解和認定稅收協議中“受益所有人”的通知》) (the “**Circular 601**”) will also apply. If determined to be ineligible for the abovementioned tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would subject to higher PRC tax rates. In such cases, the value of such Foreign Shareholders’ [REDACTED] in our Shares sold in the [REDACTED] may be materially and adversely affected.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business or our acquisition or restructuring strategies.

On February 3, 2015, the SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “**Circular 7**”), which provides comprehensive guidelines relating to, and heightened the PRC tax authorities’ scrutiny on indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise. Please refer to the section headed “Regulatory Overview” in this document for further details.

There is uncertainty as to the application of the Circular 7. The Circular 7 may be determined by the tax authorities to be applicable to our offshore restructuring transactions or sale of the shares of our offshore subsidiaries, where non-resident enterprises being transferors were involved. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with the Circular 7 or to establish that we and our non-resident enterprises should not be taxed under the Circular 7 for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material and adverse effect on our financial condition and results of operations.

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

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, was promulgated by the SAFE in July 2014 which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

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Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have requested PRC residents holding direct or indirect interest in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents and, therefore, we may not be able to identify all our Shareholders or beneficial owners who are PRC residents to ensure their compliance with SAFE Circular 37 or other related regulations. In addition, we cannot provide any assurance that all of our Shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by SAFE Circular 37 or other related regulations in a timely manner. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could materially and adversely affect our business and prospects.

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

Any funds we transfer to the relevant PRC Subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC laws and regulations on foreign-invested enterprises in China, capital contributions to our PRC Subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System (“FICMIS”), and registration with other governmental authorities in China. In addition, (i) any foreign loan procured by our PRC Subsidiaries is required to be registered with SAFE, or its local branches; and (ii) each of our PRC Subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long term loan to be provided by us to our PRC Subsidiaries must be recorded and registered by the National

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Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such recording or registration on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC Subsidiaries. If we fail to complete such recording or registration, our ability to use the [REDACTED] of this [REDACTED] and to capitalise our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (“**SAFE Circular 19**”). SAFE Circular 19 took effect on June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capital of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using Renminbi funds converted from their foreign exchange capital for expenditure beyond their business scope. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange (“**SAFE Circular 16**”). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using Renminbi funds converted from their foreign exchange capital for expenditure beyond their business scope, investing and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises, or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the [REDACTED] from this [REDACTED], which may adversely affect our business, financial condition and results of operations.

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

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies, or SAFE Circular 7, replacing the previous rules issued by the SAFE in March 2007. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. In addition, SAFE Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly listed special purpose

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company may register with the SAFE or its local branches before they exercise the share options. We and our PRC employees who have been granted share options pursuant to the Share Option Schemes are subject to these regulations. Failure of our PRC share option holders in connection to the Share Option Schemes to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals and legal sanctions and may also limit our ability to contribute additional capital into our PRC Subsidiaries, limit our PRC Subsidiaries’ ability to distribute dividends to us, or otherwise materially adversely affect our business.

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

We face foreign exchange risk, and fluctuations in exchange rates could have an adverse effect on our business and investors’ investments.

The value of Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates and is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals.

Our revenue and costs are mostly denominated in Renminbi, and a significant portion of our financial assets are also denominated in Renminbi. We rely entirely on dividends and other fees paid to us by our PRC Subsidiaries. The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. Any significant change in the exchange rate of the Hong Kong dollar against Renminbi may materially and adversely affect the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, a further appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our Hong Kong dollar denominated financial assets into Renminbi, as Renminbi is the functional currency of our PRC Subsidiaries inside China. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payment of dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against Renminbi would lessen the amount of the Hong Kong dollars available.

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

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

In light of the flood of capital outflows of China in 2016 due to the weakening of Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process have been put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the [REDACTED], no public market for our Shares existed. The initial [REDACTED] range for our Shares was the result of negotiations among us and the [REDACTED] (for itself and on behalf of the [REDACTED]), and the [REDACTED] may differ significantly from the market price for our Shares following the [REDACTED]. We have applied for the [REDACTED] of and permission to deal in our Shares on the Stock Exchange. There is no assurance that the [REDACTED] will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments may affect the volume and price at which our Shares will be traded.

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The liquidity, trading volume and market price of our Shares following the [REDACTED] may be volatile.

The price at which our Shares will trade after the [REDACTED] will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts’ estimates, if any, of our financial performance;
- the history of, and the prospects for, our Group and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding the HR industry and companies;
- changes in laws and regulations in China;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

Because the [REDACTED] per Share is higher than the net tangible book value per Share, purchasers of our Shares in the [REDACTED] will experience immediate dilution, and may experience further dilution in the future.

The [REDACTED] of our [REDACTED] is higher than the net tangible book value per Share immediately prior to the [REDACTED]. Therefore, purchasers of our [REDACTED] in the [REDACTED] will experience and immediate dilution in pro forma adjusted consolidated net tangible asset value of (i) HK\$[REDACTED] per Share (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the low-point of our [REDACTED] range), or (ii) HK\$[REDACTED] per Share (assuming an [REDACTED] of HK\$[REDACTED] per Share,

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being the high-point of our [REDACTED] range), and existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. If we issue additional Shares in the future, purchasers of our [REDACTED] may experience further dilution.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, Controlling Shareholders and the [REDACTED], could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, Controlling Shareholders and the [REDACTED], or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders and the [REDACTED] are subject to certain lock-up periods beginning on the date of this document. However, we cannot assure you that they will not dispose of any Shares after the expiry of their lock-up periods or in the future.

The interest of our Controlling Shareholders may differ from your interests and they may exercise their vote to the disadvantage of our minority Shareholders.

Immediately after the completion of the [REDACTED] (but without taking into account (i) any Shares which may be issued upon the exercise of the [REDACTED]; (ii) any Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes; and (iii) any Shares which may be issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme), our Controlling Shareholders will own approximately [REDACTED]% of our Shares. As such, our Controlling Shareholders will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchased Shares in the [REDACTED]. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The [REDACTED] of our [REDACTED] is expected to be determined on the [REDACTED]. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Business Days after the pricing date. As a result,

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investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Prior dividend distributions are not an indication of our future dividend policy.

During the Track Record Period, we did not declare or distribute any dividend to our Shareholders. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and PRC laws, including (where required) approval from our Shareholders and our Directors. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries. As a result of the above, we cannot assure you that we will make any dividend payments on our Shares in the future with reference to our historical dividends. Please refer to the section headed “Financial Information — Dividends” in this document for further details.

We have significant discretion as to how we will use the net [REDACTED] from the [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend the net [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net [REDACTED] in a number of ways, including expansion of our service coverage to new geographic locations and new clients and further enhancement of our integrated HR ecosystem and brand awareness through additional marketing activities. Please refer to the section headed “Future Plans and Use of [REDACTED] — Use of [REDACTED]” in this document for further details. However, our management will have discretion as to the actual application of our net [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses of the net [REDACTED] from this [REDACTED].

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various Independent Third Party sources, including the industry expert report, contained in this document.

This document, particularly the sections headed “Business” and “Industry Overview”, contains information and statistics relating to the HR services market. Such information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies

RISK FACTORS

between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under Hong Kong law, you may have less protection of your shareholder rights than you would under Hong Kong law.

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Companies Law and the common law of the Cayman Islands. The rights of our Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in other jurisdictions, such as Hong Kong. Please refer to the section headed “Summary of the Constitution of the Company and Cayman Islands Companies Law and Taxation” in Appendix III to this document for further details.

As a result of all of the above, our public Shareholders may have more difficulty in protecting their interests through actions against our management, Directors or major Shareholders than they would as public Shareholders of a corporation incorporated in Hong Kong.

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

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

RISK FACTORS

In making your investment decision regarding our Shares, you should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and, under normal circumstances, at least two of the new applicant's executive directors must be ordinarily resident in Hong Kong.

Since substantially all of the business operations of our Group are managed and conducted outside of Hong Kong, and all of the executive Directors ordinarily reside outside Hong Kong, our Company considers that it would be practically difficult and commercially unreasonable and undesirable for our Company to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of existing executive Directors or appointment of additional executive Directors. Our Company does not have and does not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed Ms. Siu, one of our joint company secretaries, and Mr. F Zhang, our executive Director, as authorized representatives of our Company, to be the principal channel of communication with the Stock Exchange. Each of them has confirmed that he/she can be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters on short notice. As and when the Stock Exchange wishes to contact our Directors on any matters, each of the authorized representatives will have means to contact all of our Directors promptly at all times. Our Company will also inform the Stock Exchange promptly in respect of any change in the authorized representatives;
- (b) in addition to the appointment of the authorized representatives, to facilitate communication with the Stock Exchange, the contact details of each Director, including his/her mobile phone number, office phone number, facsimile number and e-mail address, have been provided to each of the authorized representatives, our joint company secretaries and the Compliance Advisor (as defined below) who have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time as and when required;

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- (c) pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Founder Securities (Hong Kong) Capital Company Limited as our compliance advisor (the “**Compliance Advisor**”) for the period commencing from the date of our [REDACTED] until the date on which our Company announces our financial results and distributes our annual report for the first full financial year after the date of our [REDACTED]. The Compliance Advisor will act as our Company’s additional and alternative channel of communication with the Stock Exchange, and its representatives will be readily available to answer enquiries from the Stock Exchange. Our Company will ensure that there are adequate and efficient means of communication between us, our authorized representatives, Directors and other officers and the Compliance Advisor, and will keep the Compliance Advisor fully informed of all communications and dealings between us and the Stock Exchange. Our Company will also inform the Stock Exchange promptly in respect of any change in the Compliance Advisor. Meetings with the Stock Exchange and our Directors can be arranged through our Company’s authorized representatives or the Compliance Advisor, or directly with our Directors with reasonable notice; and
- (d) in addition to the Compliance Advisor’s role and responsibilities after the [REDACTED] to provide advice to our Company on the continuing requirements under the Listing Rules and applicable laws and regulations, our Company will retain a Hong Kong legal advisor to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the [REDACTED].

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Note 2 to Rule 3.28 of the Listing Rules provides that, in assessing “relevant experience”, the Stock Exchange will consider the individual’s: (i) length of employment with the issuer and other issuers and the roles he/she played; (ii) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code; (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and (iv) professional qualifications in other jurisdictions.

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Our Company has appointed Mr. Li as one of the joint company secretaries. He has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rule 3.28 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Ms. Siu, a member of the Hong Kong Institute of Certified Public Accountants, who meets the requirements stipulated under Rule 3.28 of the Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Li for an initial period of three years from the [REDACTED] to enable Mr. Li to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Ms. Siu will work closely with Mr. Li to jointly discharge the duties and responsibilities as company secretaries and assist Mr. Li in acquiring the relevant experience as required under Rule 3.28 of the Listing Rules. Mr. Li will also be assisted by (a) the Compliance Advisor for the first full financial year from the [REDACTED], particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisor of our Company, on matters concerning our Company’s ongoing compliance with the Listing Rules and the applicable Hong Kong laws and regulations. In addition, Mr. Li will endeavor to attend relevant trainings and familiarize himself with the Listing Rules and duties required of a company secretary of an issuer listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the [REDACTED], and is granted on the condition that we engage Ms. Siu, who possesses all the requisite qualifications under Rule 3.28 of the Listing Rules, to assist Mr. Li in discharging his duties as a joint company secretary and in gaining the “relevant experience” as required under Note 2 to Rule 3.28 of the Listing Rules.

Before the expiration of the initial three-year period, the qualifications of Mr. Li will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for on-going assistance will continue. In the event Mr. Li fulfills all the requirements stipulated at the end of the initial three-year period, the above joint company secretaries arrangement would no longer be necessary for our Company.

CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the [REDACTED] as described in the section headed “Connected Transactions” in this document. We expect such non-exempt continuing connected transactions will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that

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strict compliance with the applicable requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company. For further details, see the section headed “Connected Transactions” in this document.

WAIVER AND EXEMPTION IN RELATION TO THE [REDACTED] SHARE OPTION SCHEMES

Rule 17.02(1)(b) of the Listing Rules requires a listing applicant to, inter alia, disclose in the document full details of all outstanding options and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding options.

Paragraph 27 of Appendix 1A to the Listing Rules requires a listing applicant to disclose, inter alia, particulars of any capital of any member of the group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement, provided that where options have been granted or agreed to be granted to all the members or debenture holders or to any class thereof, or to employees under a share option scheme, it shall be sufficient, so far as the names and addresses are concerned, to record that fact without giving the names and addresses of the grantees.

Under Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the document must state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the number, description and amount of any shares in or debentures of the company which any person has, or is entitled to be given, an option to subscribe for, together with the particulars of the option, that is to say, (a) the period during which it is exercisable; (b) the price to be paid for shares or debentures subscribed for under it; (c) the consideration (if any) given or to be given for it or for the right to it; and (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures, must be specified in the document.

As of the Latest Practicable Date, our Company had granted options under the [REDACTED] Share Option Schemes to [230] grantees, comprising two executive Directors, one senior management member of our Company (excluding the Directors) and [227] other employees, advisors/consultants and former employees of our Group to subscribe for an aggregate of [22,904,600] Shares, representing approximately [REDACTED]% of our Company’s issued share capital immediately after completion of the [REDACTED] i.e. [REDACTED] Shares (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). Our Company has applied to the Stock Exchange and the SFC, respectively, for (i)

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a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the grounds that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) since the options granted under the [REDACTED] Share Option Schemes were granted to a total of [235] grantees involved, strict compliance with the relevant disclosure requirements to disclose names, addresses, and entitlements on an individual basis in the document is unduly burdensome and will require substantial number of pages of additional disclosure that does not provide any material information to the investing public and would significantly increase the cost and timing for information compilation, document preparation and printing;
- (b) the key information of the options granted under the [REDACTED] Share Option Schemes to our Directors, members of the senior management and connected persons (if any) has already been disclosed in this document under the section headed “Statutory and General Information — D. Share Option Schemes — 1. [REDACTED] Share Option Schemes” in Appendix IV to this document;
- (c) the key information of the [REDACTED] Share Option Schemes as disclosed in this document under the section headed “Statutory General Information— D. Share Option Schemes — 1. [REDACTED] Share Option Schemes” in Appendix IV to this document is sufficient to provide potential investors with information to make an informed assessment of the potential dilution effect and impact on earnings per share of the options granted under the [REDACTED] Share Option Schemes in their investment decision making process; and
- (d) the lack of full compliance with such disclosure requirements will not prevent potential investors from making an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group and will not prejudice the interest of the investing public.

The Stock Exchange [has granted] us a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules on the conditions that:

- (a) the following information will be clearly disclosed in this document: (i) on individual basis, full details of all the options granted by our Company under the [REDACTED] Share Option Schemes to each of our Directors, members of the senior management or connected persons (if any) of our Company, including all the particulars required under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules; (ii) in respect of the options granted by our Company to the grantees

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other than those referred to in sub-paragraph (i) above: (1) the aggregate number of the grantees; (2) the number of Shares subject to such options; (3) the consideration paid for the grant of such options; (4) the exercise period of each option; and (5) the exercise price for the options;

- (b) the dilution effect and impact on earnings per Share upon full exercise of the options granted under the [REDACTED] Share Option Schemes be disclosed in this document;
- (c) the aggregate number of Shares subject to the outstanding options granted by our Company under the [REDACTED] Share Option Schemes and the percentage of our Company's issued share capital of which such number represents be disclosed in this document;
- (d) a summary of the [REDACTED] Share Option Schemes be disclosed in this document; and
- (e) the list of all the grantees (including the persons referred to in paragraph (a)(ii) above) who have been granted options to subscribe for Shares under the [REDACTED] Share Option Schemes, containing all details as required under Rule 17.02(1)(b), paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this document.

The SFC [has granted] to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, exempting our Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on conditions that:

- (a) on an individual basis, full details of all the options granted under the [REDACTED] Share Option Schemes to each of our Directors, senior management and connected persons (if any) of our Company be disclosed in this document, such details include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted by our Company to the grantees other than those referred to in paragraph (a) above, the following details be disclosed in this document: (i) the aggregate number of the grantees; (ii) the number of Shares subject to such options; (iii) the consideration paid for the grant of such options; (iv) the exercise period of each option; and (v) the exercise price for the options;

WAIVERS AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (c) the list of all the grantees (including the persons referred to in paragraph (b) above) who have been granted options to subscribe for Shares under the [REDACTED] Share Option Schemes, containing all details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be made available for public inspection in accordance with the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this document; and
- (d) the particulars of the exemption are disclosed in this document. Further details of the [REDACTED] Share Option Schemes are set forth in the section headed “Statutory and General Information — D. Share Option Schemes — 1. [REDACTED] Share Option Schemes” in Appendix IV to this document.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Directors

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Zhang Jianguo (張建國)	No.510 Lane 415 Longdong Avenue Pudong New District Shanghai, China	Chinese
Mr. Zhang Feng (張峰)	Room 1201, Building 9 No. 89 Furong Road (East) Qujiang New District, Xi'an Shanxi Province, China	Chinese
Ms. Zhang Jianmei (張健梅)	Room 1, Floor 1 Unit 2, Building 45 Yifeng Xincheng Huilong Shequ Zhonghe Street Sichuan, China	Chinese
<i>Non-executive Directors</i>		
Mr. Chen Rui (陳瑞)	18F, Block 6, Phase 1 East Pacific Garden Futian District Shenzhen, China	Chinese
Mr. Chow Siu Lui (鄒小磊)	Flat B, 20/F. Serene Court 8 Kotewall Road Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Ms. Chan Mei Bo Mabel (陳美寶) .	1st Floor, Block 3 Repulse Bay Garden 32 Bellevue Drive Repulse Bay Hong Kong	Chinese
Mr. Shen Hao (沈浩)	No.100, Lane 288 Yunle Road Minhang District Shanghai, China	Chinese

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
Mr. Leung Ming Shu (梁銘樞)	Flat 1, 3/F, Block A Ventris Place 19-23 Ventris Road Hong Kong	Chinese

Further information is disclosed in the section headed “Directors and Senior Management” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor

BNP Paribas Securities (Asia) Limited
59/F-63/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

[REDACTED]

Legal Advisors to the Company

As to Hong Kong law
Deacons
5th Floor, Alexandra House
18 Charter Road Central
Hong Kong

As to PRC law
Haiwen & Partners
20/F, Fortune Financial Center
5 Dong San Huan Central Road
Chaoyang District
Beijing
PRC

As to Cayman Islands law
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center, 99 Queen's Road Central,
Hong Kong

**Legal Advisors to the Sole
Sponsor and the [REDACTED]**

As to Hong Kong law
[REDACTED]

As to PRC law
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

**Reporting Accountant and
Independent Auditor**

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince’s Building
Central, Hong Kong

Industry Consultant

China Insights Industry Consultancy Limited
10/F Tomorrow Square
399 West Nanjing Road
Huangpu District
Shanghai, PRC

Compliance Advisor

Founder Securities (Hong Kong) Capital
Company Limited
Room 1710-1719
Jardine House
1 Connaught Place
Central
Hong Kong

[REDACTED]

CORPORATE INFORMATION

Headquarters	No. 601, 602, 603, 6/F, Block 3 No. 688 Mid-Section Tianfu Avenue Chengdu High-tech Zone Free Trade Pilot Zone Sichuan, China
Principal Place of Business in Hong Kong	14/F., Golden Centre 188 Des Voeux Road Central Hong Kong
Registered Office in the Cayman Islands	Maples Corporate Services Limited P.O. Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Company Website	www.renruih.com <i>(the information contained on the website does not form part of this document)</i>
Joint Company Secretaries	Li Wenjia (李文佳) 8/F., Tahoe Tower No. 200 Hengfeng Road Jingan District Shanghai, China Siu Pui Wah (蕭佩華)(HKICPA) 14/F., Golden Centre 188 Des Voeux Road Central Hong Kong
Authorized Representatives	Zhang Feng (張峰) Room 1201, Building 9 No. 89 Furong Road (East) Qujiang New District Xi'an, Shanxi Province China Siu Pui Wah (蕭佩華) 14/F., Golden Centre 188 Des Voeux Road Central Hong Kong
Audit Committee	Leung Ming Shu (梁銘樞) (Chairman) Chow Siu Lui (鄒小磊) Chan Mei Bo Mabel (陳美寶)

CORPORATE INFORMATION

Remuneration Committee	Chan Mei Bo Mabel (陳美寶) (<i>Chairman</i>) Zhang Jianguo (張建國) Shen Hao (沈浩)
Nomination Committee	Zhang Jianguo (張建國)(<i>Chairman</i>) Chan Mei Bo Mabel (陳美寶) Shen Hao (沈浩)
Principal Share Registrar and Transfer Office	[REDACTED]
Hong Kong Share Registrar	[REDACTED]
Principal Banks	China Merchants Bank Co., Ltd., Shanghai, Baoshan Branch 3/F, No. 1248 Mudanjiang Road, Shanghai PRC Bank of China Limited, Chengdu, Chenghua Branch No. 398-2 Xinhong Road, Chenghua Avenue Chengdu, Sichuan Province PRC

INDUSTRY OVERVIEW

Unless otherwise indicated, the information presented in this section is derived from the CIC Report, which was commissioned by us and is prepared by CIC based on publicly available resources and is prepared primarily as a market research tool intended to reflect estimates of market conditions. Our Directors believe that the sources of information and statistics contained in this section are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information prepared by CIC and set out in this section has not been independently verified by our Group, our Controlling Shareholders, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any other party involved in the [REDACTED] or their respective directors, officers, employees, advisors and agents (except CIC), and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We commissioned CIC, an independent industry consultant, to conduct an analysis of, and report on, China’s HR services market from 2014 to 2023. The report we commissioned, or the CIC Report, was prepared by CIC independently of our influence. We paid CIC a fee of RMB600,000 for the preparation of the report, which we consider to be in line with market rates. CIC, an investment and financing consultancy, provided services including industry consulting, commercial due diligence, strategic consulting, etc.

CIC conducted both primary and secondary research using various resources. Primary research methods involved interviewing key industry experts and leading industry participants. Secondary research methods involved analyzing data from various publicly available data sources, such as the websites of the National Bureau of Statistics of PRC, the Ministry of Finance, the International Monetary Fund, United Nations, the MOHRSS, American Staffing Association, World Bank, US Bureau of Labor Statistics, etc.

The market projections in the commissioned report are based on the following key assumptions: (i) the overall social, economic and political environment in China is expected to remain stable during the forecast period; (ii) China’s economic and industrial development is likely to maintain a steady growth trajectory during the forecast period, accompanied by continuing urbanization; (iii) related key industry drivers are likely to continue driving the growth of China’s HR services market during the forecast period; and (iv) there will be no extreme force majeure or unforeseen set of industry regulations that may fundamentally change or affect China’s HR services market.

Except as otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, to the best of their knowledge and after making reasonable enquiries, there is no adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information disclosed in this section.

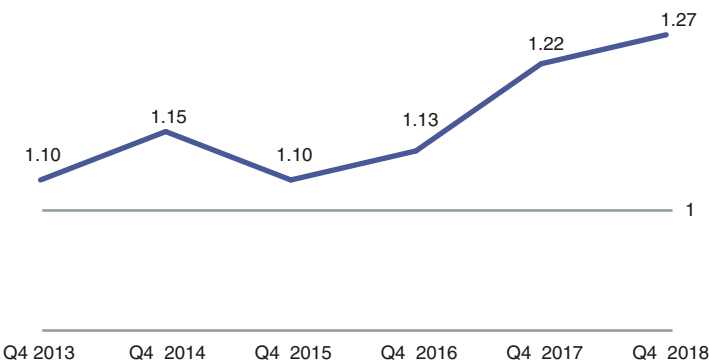
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OVERVIEW OF THE HR SERVICES MARKET IN CHINA

Emergence of the HR Services Market in China

China’s economy has experienced solid growth amid the continuous market development, with the nominal GDP growth at a CAGR of 8.2% from 2014 to 2018 and forecasted to grow at a CAGR of 8.3% from 2018 to 2023, according to the International Monetary Fund. Such rapid development together with the emergence of new economy sectors in China, have encouraged higher investment focus on businesses that are consumption-driven and technology-oriented compared to the traditional heavy infrastructure investments. As a result, the employment market has a much higher demand for talents with relevant skillset to support such rapid economic growth and economy structural changes, creating a sizeable mismatch in the labor market (i.e. shortage of workforce with the relevant skillset). According to the MOHRSS, the demand-to-supply ratio of job vacancy available to job seekers in the public labor market showed an upward trend since 2013, indicating a clear uptrend of talent supply shortage. In the fourth quarter of 2018, there were 4.38 million job vacancies and 3.44 million job seekers in the public labor market, with the demand-to-supply ratio reaching 1.27.

The talent demand-to-supply ratio in China’s public labor market, Q4 2013 — Q4 2018



Source: NBS, MOHRSS, CIC Report

Continued development of China’s economy has also intensified competitions among enterprises. These enterprises are facing increasingly fierce competition, high operational costs, while need to spend majority focus on business expansion which is critical in a growing economy. Therefore, many of them require assistance from professionals who can manage their operational tasks such as HR services which require relevant expertise in the area. There is a growing demand for outsourcing talent acquisition and talent management functions to HR services providers, especially for fast-growing emerging industries with rising companies which may not have sufficient expertise.

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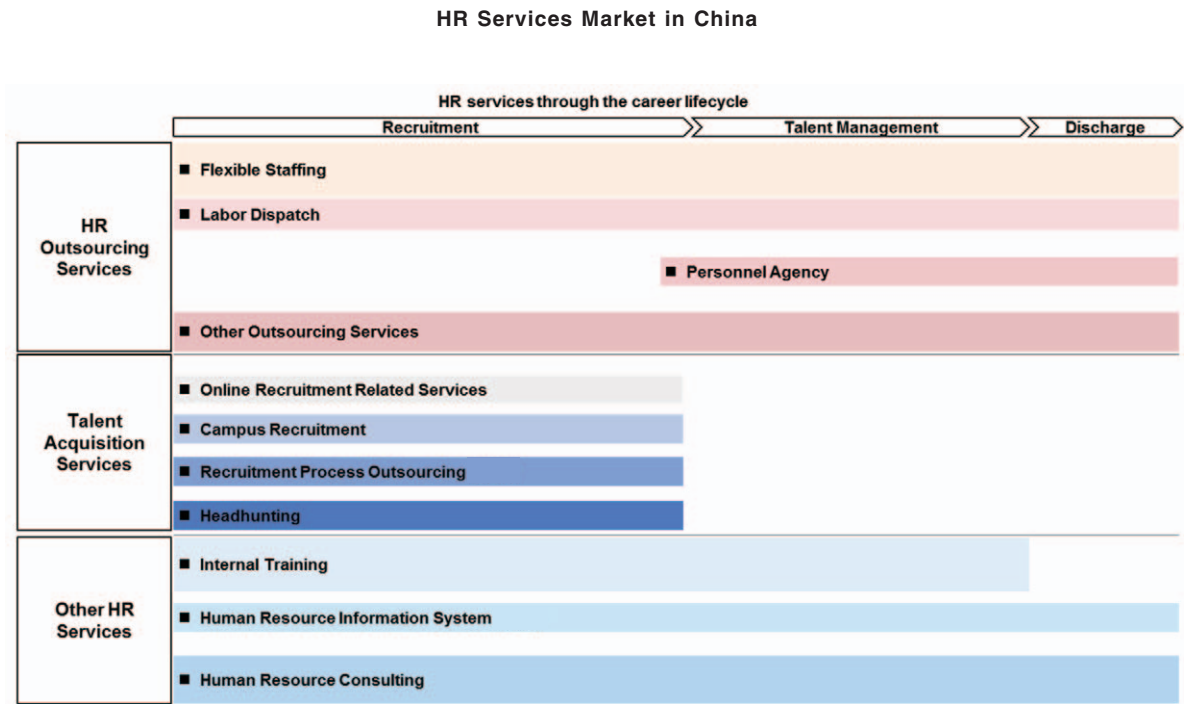
In addition, the PRC government has promulgated a series of stimulus policies and regulations to promote HR services market, with the aim to reduce the unemployment rate in China, to address the unmet demand in the labor market, and to bridge the supply and demand gap between employers and talents:

- The 2018 Interim Regulation on Human Resources Market (《人力資源市場暫行條例》) issued by the State Council which encourages the social forces to participate in the construction of human resources market, and aims to regulate the market activities of human resources, promote the rational flow and optimal allocation of human resources, and facilitate employment;
- The 2017 Action Plan on the Development of the Human Resource Services Market (《人力資源服務業發展行動計劃》) issued by the MOHRSS which sets targets in promoting HR services market with the aim to achieve a total market size of RMB2 trillion by 2020, with approximately 100 leading companies of the industry, and approximately 600,000 employees in the HR services industry;
- The 2015 Employment Promotion Law of the PRC (《中華人民共和國就業促進法》) issued by the SCNPC which encourages businesses to create more jobs and expand employment channels as well as emphasizes the need to foster and improve HR services market in providing employment services to workers;
- The 2014 Opinions on Accelerating the Development of the Human Resources Service Industry (《關於加快發展人力資源服務業的意見》) issued by the MOHRSS, the National Development and Reform Commission, and the Ministry of Finance which targets to make the HR services industry a leading industry within the national economy; and
- The 2010 National Plan for Medium and Long-term Human Resources Development (2010-2020) issued by the State Council which aims to prioritize human resource development (《國家中長期人才發展規劃綱要(2010-2020年)》) in the course of economic and social development.

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HR Services Market Segments

The HR services market in China consists of a variety of market segments including HR outsourcing services, talent acquisition services and others HR services. The HR outsourcing services and other HR services primarily target the entire career lifecycle, providing comprehensive market opportunities for services providers, while talent acquisition services primarily target at the recruitment stage. The following diagram illustrates the composition of the HR services market in China.

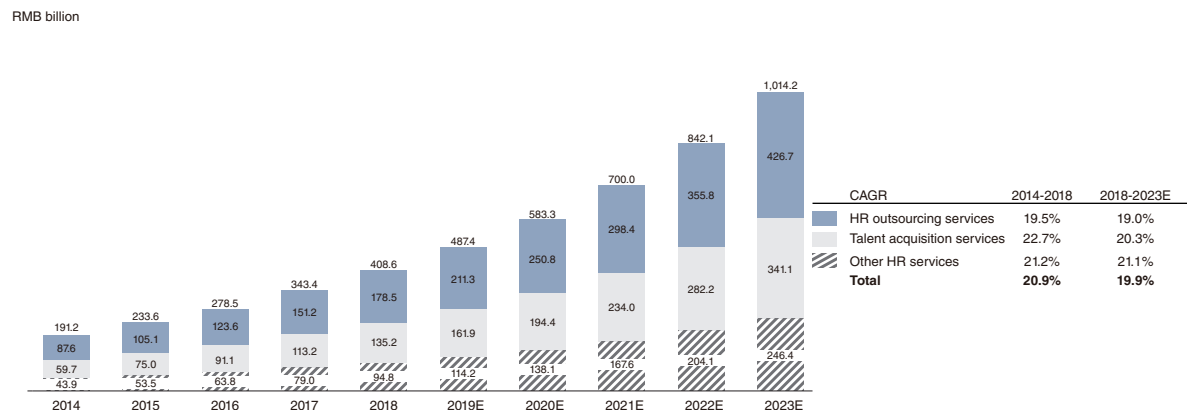


Source: CIC Report

As a fast-growing industry, the HR services market in China grew from approximately RMB191.2 billion in 2014 to approximately RMB408.6 billion in 2018, representing a CAGR of 20.9%, and is expected to reach approximately RMB1,014.2 billion by 2023, representing a CAGR of 19.9%. The fast growth is primarily driven by government supports including stimulus policies and increasing public expenditure, increasing budget for HR services and growing demand for talent acquisition and management from fast-growing emerging industries, especially new economy industries. The chart below sets out the total market size of HR services market in China in terms of revenue.

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Market size of the HR services market in China, 2014-2023E



Source: CIC Report

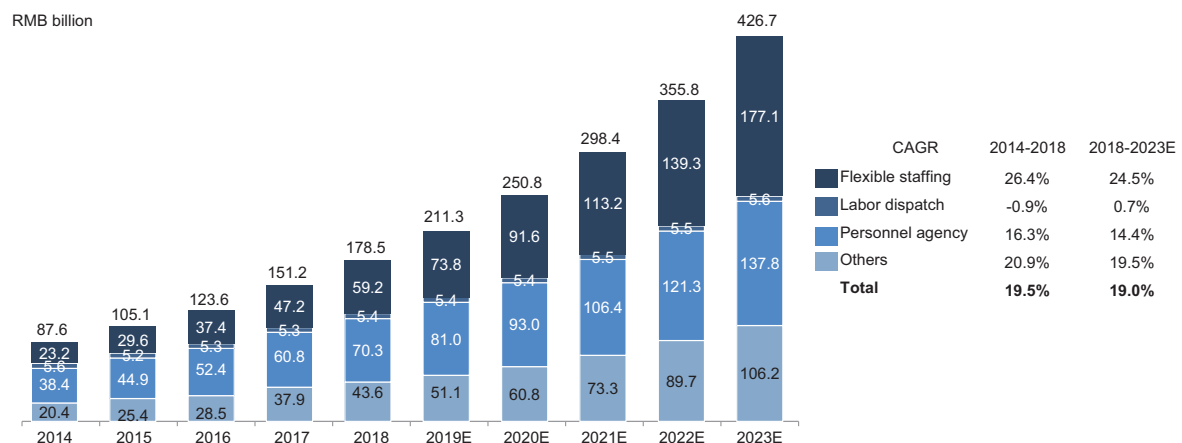
Note: Revenues do not include salary and social insurance collections and payment transfer (代收代付) in personnel agency and labor dispatch business.

OVERVIEW OF THE HR OUTSOURCING SERVICES MARKET IN CHINA

Market Size

The HR outsourcing services market in China has experienced substantial growth in recent years, which grew from approximately RMB87.6 billion in 2014 to approximately RMB178.5 billion in 2018, representing a CAGR of 19.5%, and is expected to reach approximately RMB426.7 billion by 2023, representing a CAGR of 19.0%. The following chart sets out the market size of the HR outsourcing services market in China in terms of revenue.

Market size of the HR outsourcing services market in China, 2014-2023E



Source: CIC Report

Note: Revenues do not include salary and social insurance collections and payment transfer (代收代付) in personnel agency and labor dispatch business.

We ranked 6th among all the service providers in China’s HR outsourcing services market, having generated RMB1.5 billion in 2018, with a market share of 0.8%.

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Flexible staffing services is one of the key functions in HR outsourcing services. It covers the entire value chain of HR services, including talent recruitment, pre-job training, personnel management, and discharge. It also represents the fastest growing segment with a CAGR of 26.4% from 2014 to 2018, and is expected to further grow at a CAGR of 24.5% from 2018 to 2023, becoming the largest segment in the HR outsourcing services segment, accounting for approximately 41.5% of the total market size in 2023. Flexible staffing service providers charge an average monthly service premium of RMB586.0 per employee in 2018. Other segments of the HR outsourcing services include 1) personnel agency, for which HR services providers handle personnel management functions, such as personal records management, social insurance and housing provident fund payments, in order to improve efficiency. Personnel agency service providers charge an average monthly service premium of RMB30.0 per employee in 2018 ; 2) labor dispatch, for which HR services providers provide clients with talents under a tripartite legal agreement. Labor dispatch service providers charge an average monthly service premium of RMB50.0 per employee in 2018; 3) others, e.g., compensation outsourcing, corporate benefits outsourcing.

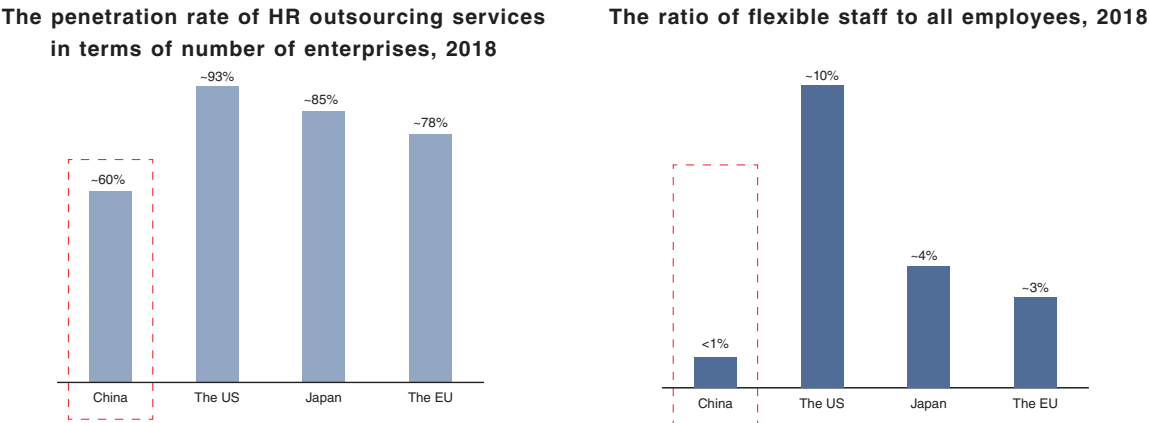
Market Penetration

Compared with developed economies like the US, Japan and European Union (“EU”), the HR outsourcing services market in China is at an early stage of development as demonstrated by a significantly lower penetration rate in 2018. With increasing market competition, companies operating in China are becoming increasingly more open to HR outsourcing services to reduce their costs. As a result, the penetration rate for HR outsourcing services is expected to increase at a rapid pace in China in the near future according to CIC.

In terms of flexible staffing, which is a key growth driver in the HR outsourcing services market, the flexible staff ratio to all employees in China, the US, Japan, and the EU were less than 1%, approximately 10%, 4% and 3%, respectively, in 2018. The low flexible staffing ratios in China compared to the developed economies indicates solid growth potential for the China market. Flexible staffing services play a crucial role in the Japanese labor market due to issues surrounding its aging population. China, much like Japan, is also projected to experience a similar trend leading to an imbalance between the supply and demand for labor resources. Penetration rates of flexible staffing services vary among different industries, with TMT and IT industries, and transportation and logistics industries having the highest ratio of

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flexible staff, followed by manufacturing, retail and consumer goods, finance, and real estate industries. The chart below sets out the market penetration rates and ratios of flexible staff to all employees for HR outsourcing services in China, the U.S., Japan and the EU.



Source: The World Employment Confederation, American Staffing Association, World Bank, US Bureau of Labor Statistics, CIC Report

- Notes:
- (1) The penetration rate is calculated as the number of companies who have outsourced at least one HR related activity to third-party service provider divided by the total number of registered companies in a specific country.
 - (2) The ratio of flexible staff is calculated as the total number of flexible staff divided by the total number of employees in a specific country.

OVERVIEW OF THE FLEXIBLE STAFFING SERVICES MARKET IN CHINA

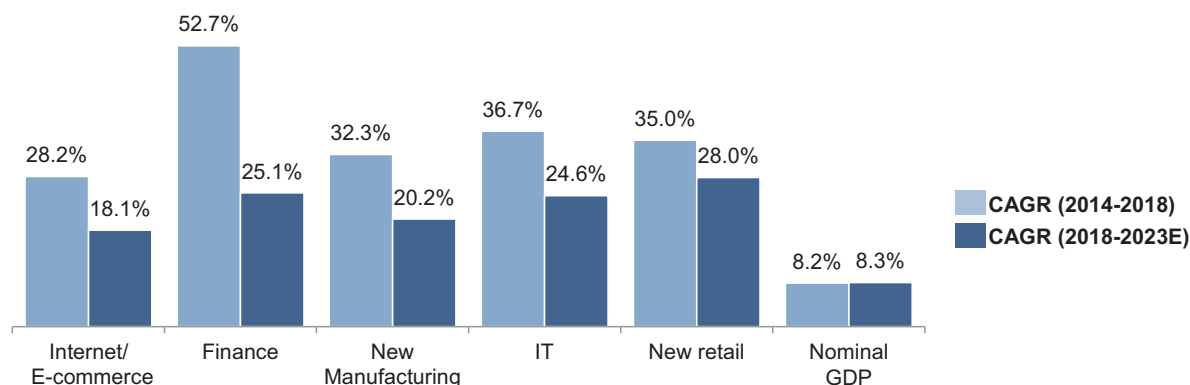
Market Overview

Flexible staffing services involve staffing and managing the whole of a labor-intensive activity for enterprise allowing them to focus on developing their own core business, and managing their HR staffing needs in a flexible way during peaks and troughs. Such trend is particularly obvious for: (i) emerging new economy companies who often need to recruit a large number of candidates spreading across the nation in a short period of time, but lack the expertise to accomplish such initiatives nor the capability to manage the staff; and (ii) companies which require to streamline its staffing costs and increase flexibility during economic fluctuation.

According to CIC, flexible staffing services were first introduced by the multinational corporations and state-own enterprises in China. After 2010, a number of private enterprises have started entering into the market. CIC expects that the private enterprise will see greater growth potential in the near future, as they are normally more flexible in practices, and have stronger capability to serve local clients in both new economy and traditional industries. CIC also expects that the emerging new economy sectors in China will be a key growth driver to the flexible staffing services given the significant growth from these companies and lack of HR expertise. According to CIC, the new economy industries in China by GMV expanded at a robust CAGR of 30.4% from 2014 to 2018, approximately four times faster than the nominal GDP growth, and are expected to continue growing at a fast pace. The chart below sets out the major new economy industries that our clients operate in and new segments that we target to expand.

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New economy industries growth by segment, by GMV, China

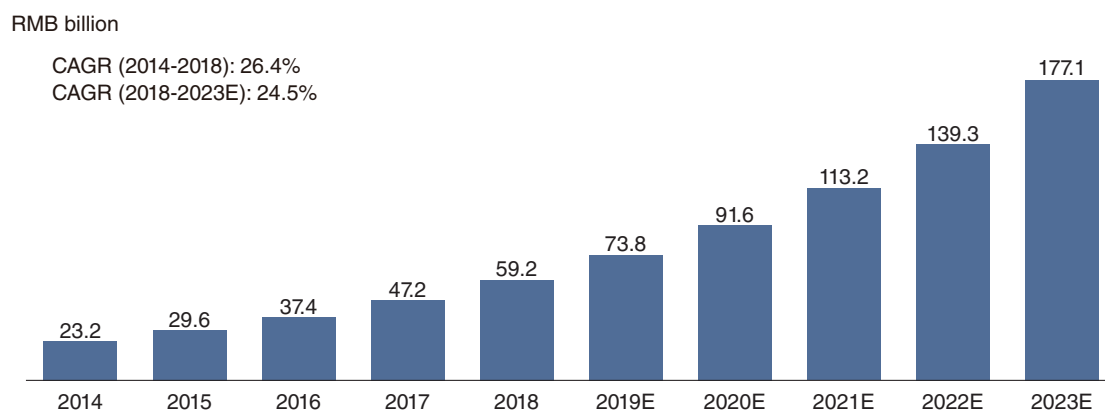


Source: CIC Report

Market Size

China's flexible staffing services market expanded from RMB23.2 billion in 2014 to RMB59.2 billion in 2018, representing a CAGR of 26.4%, and is expected to further grow at a CAGR of 24.5% to reach RMB177.1 billion in 2023. The chart below sets out the market size of the flexible staffing services market in China in terms of revenue.

Market size of the flexible staffing services market in China, 2014-2023E



Source: CIC Report

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In particular, the chart below sets out the market size in terms of revenue by cities which we are looking to expand our operations.

City	Flexible staffing market size in terms of revenue, 2018 (RMB million)	Flexible staffing market size CAGR, 2018-2023E (%)
Suzhou.....	1,805.9	22.3%
Ningbo	1,275.9	25.9%
Changsha.....	1,012.6	24.5%
Zhengzhou.....	766.6	25.9%
Jinan	649.3	24.6%
Hefei	556.5	26.3%
Dalian.....	477.5	10.1%
Xiamen.....	449.1	25.5%
Kunming.....	327.9	21.7%
Nanning	252.2	21.9%
Guiyang	227.0	25.6%

Source: CIC Report

According to CIC, the flexible staffing services market in the 11 cities is highly fragmented, with the top five market participants in each city accounting for no more than 15% in terms of flexible staffing revenue as of 2018. While the market is highly fragmented, according to CIC, most of services providers in the flexible staffing service industry are local small-scale participants, and in each city, over 80% of flexible staffing service providers' revenue as of 2018 was below RMB5 million.

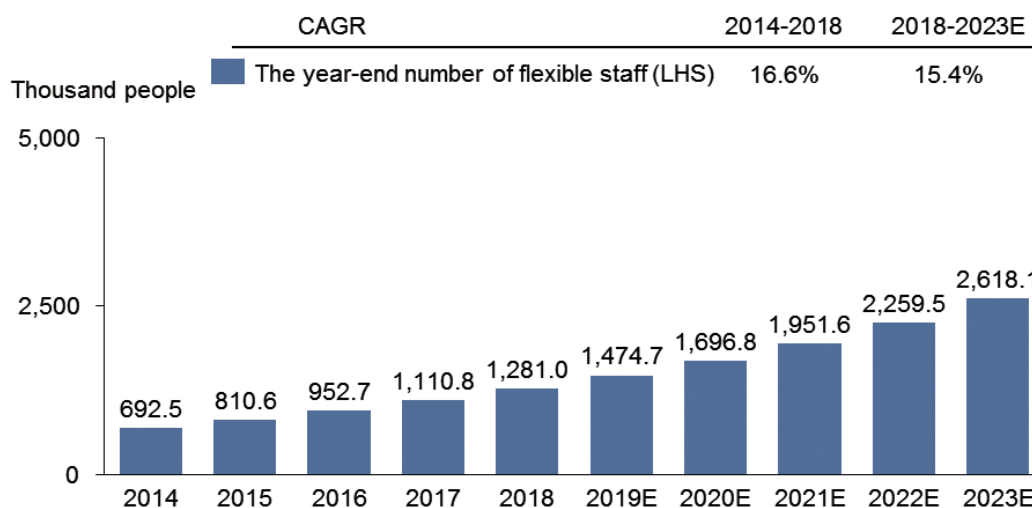
The year-end number of flexible staff has experienced rapid growth at a CAGR of 16.6%, growing from approximately 692,500 in 2014 to approximately 1,281,000 in 2018, and is expected to reach approximately 2,618,100 in 2023. In particular, the continuous growth of new economy companies generates substantial demand for flexible staffing services. The year-end number of flexible staff serving the new economy industries, which includes internet and e-commerce, internet finance and online banking, IT, new manufacturing and new retail, increased from approximately 121,200 in 2014 to approximately 429,600 in 2018, representing a CAGR of 37.2%. It is estimated that the year-end number of flexible staff serving the new economy industries will continue to grow and reach approximately 1,294,200 in 2023, representing a CAGR of 24.7% from 2018 to 2023. Other traditional industries, such as financial services and real estate, have also seen growth in demand for flexible staffing services. For traditional financial services, meaning those that do not include internet finance or online banking, the year-end number of flexible staff has grown from approximately 37,900 in 2014 to approximately 92,600 in 2018, representing a CAGR of 25.0%. It is estimated that this will continue to grow and reach approximately 241,400 in 2023, representing a CAGR of 21.1% from 2018 to 2023. For the real estate industry, the year-end number of flexible staff has grown by a CAGR of 22.0% for 2014 to 2018, from approximately 25,800 in 2014 to

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approximately 57,200 in 2018, and is further expected to reach approximately 145,300 in 2023, representing a CAGR of 20.5%. Meanwhile, the number of employees in the labor market in China grew from 772.5 million in 2014 to 775.9 million in 2018 and is projected to reach approximately 779.3 million in 2023. Therefore, compared to the total number of employees in the labor market in China, the penetration rate is still very low. In terms of flexible staffing for low to mid-level positions, the market size increased from RMB17.8 billion in 2014 to RMB44.5 billion in 2018, representing a CAGR of 25.7%. It is expected to further expand to RMB129.1 billion in 2023, with a CAGR of 23.7% between 2018 and 2023. Meanwhile, the market size of the flexible staffing for mid to high-level positions grew from RMB5.4 billion in 2014 to RMB14.7 billion in 2018, with a CAGR of 28.4%. The market is projected to grow at a CAGR of 26.7%, reaching RMB48.0 billion by 2023. The market of flexible staffing for low to mid-level positions is highly fragmented, with over 8,000 participants. A talent supply shortage in these positions is still expected to exist in China over the next five years.

The average monthly service premium for each staff, which is the main net revenue source for flexible staffing services providers, grew from RMB556.0 in 2014 to RMB586.0 in 2018 and is expected to reach RMB604.1 in 2023 due to the growth of labor cost in China. More professional positions, such as IT personnel, usually charge a higher service premium than the average level above. In addition, leading players in the flexible staffing services market are able to charge higher service premiums leveraging their premium service quality and strong execution capabilities. The following charts illustrate the year-end number of flexible staff and the average monthly service premium for each flexible staff in China.

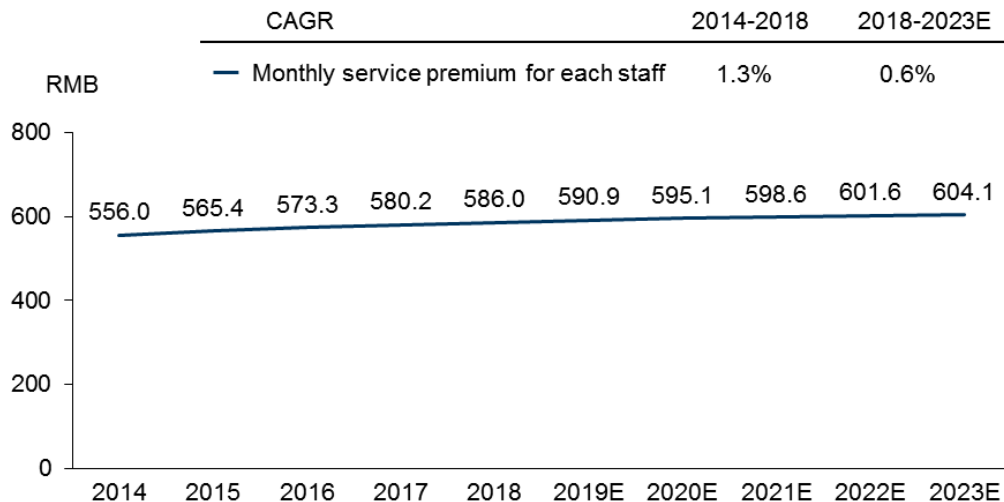
The year-end number of flexible staff, China, 2014-2023E



Source: CIC Report

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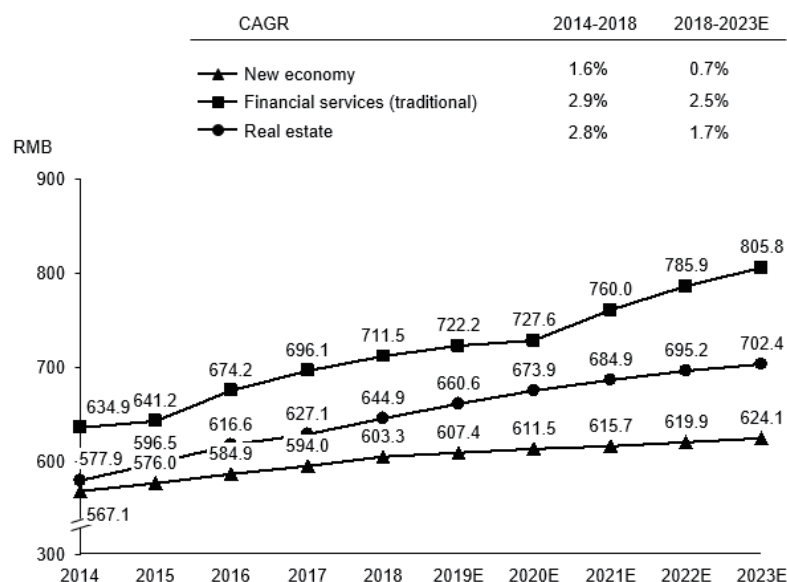
The monthly service premium for each flexible staff, China, 2014-2023E



Source: CIC Report

Due to salary differences between different industries in China, the average monthly service premiums charged for flexible staff in certain industries may differ from the average, which was approximately RMB586.0 per month for each flexible staff in 2018. The average monthly service premiums charged for flexible staff in industries such as traditional retail, catering services, lodging services and manufacturing are generally lower than the average, and was approximately RMB554.0 per month for each flexible staff in 2018. For new economy, traditional financial services (i.e. excluding internet finance or online banking) and real estate industries, the average monthly service premiums charged for flexible staff are generally higher than the average. The chart below illustrates the average monthly service premiums for flexible staff serving the new economy, traditional financial services and real estate industries from 2014 to 2023E:

The monthly service premium for each staff in China, for new economy, financial services (traditional) and real estate industries, 2014-2023E



Note: Financial services (traditional) industry does not include internet finance or online banking.

Source: CIC Report

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Growth Drivers

The flexible staffing market in China is primarily driven by the following factors:

- ***New economy sectors fueling the rapid growth in flexible staffing needs:*** The new economy sector companies continue to expand rapidly and serve as a powerful engine for China’s continued economic development. Many of these new upcoming new economy sector companies have also become sizeable unicorn companies. According to CIC, China already has the largest number of unicorns globally, accounting for approximately 40% of the total number of unicorns globally as of December 31, 2017. These new economy participants are expanding rapidly and in need of a large pool of qualified talents, which is expected to fuel the growth of the flexible staffing market. The year-end number of flexible staff serving the new economy in China increased from approximately 121,200 in 2014 to approximately 429,600 in 2018, representing a CAGR of 37.2%, and is estimated to reach approximately 1,294,200 in 2023, representing a CAGR of 24.7% from 2018 to 2023;
- ***Stronger demand for flexible jobs in younger generations:*** According to the sampling population survey conducted by National Bureau of Statistics of PRC in 2016, above 28.9% of the total working-age population were born after the early 1980s (millennials and generation Z). These population groups have a higher preference in taking short-term jobs or working as a freelancer to achieve higher flexibility. For example, approximately 50% of millennials and approximately 90% of generation Z chose or considered to take short-term or flexible jobs in China in 2018. The work culture of these population groups is expected to create challenges for enterprises to employ long serving staffs;
- ***Demand and supply gap in the labor market:*** Aging population has become a trend in China. According to CIC, the working-age (i.e. age 16 to 59) population is projected to decrease from 897.3 million in 2018 to 858.9 million in 2023. Hence, it is increasingly difficult for enterprises to employ talents with readily available skills set. As a result, the ongoing demand-supply gap in China’s labor market will generate more opportunities for flexible staffing services;
- ***Supportive government policies:*** The Chinese government encourages the diversification of employment and ensure the social security system for each form of employment, in an attempt to narrow the supply-demand gap in the labor market, e.g., the National Development and Reform Commission issued the Guiding Opinions on Promoting the Development of the Sharing Economy in 2017. These supportive employment policies are driving laborers to accept flexible staffing as another form of employment;
- ***Increasing emphasis on the core competencies due to more intense market competitions:*** Competitions in the China market continue to intensify. Enterprises are facing increasingly fierce competition, which stimulated them to focus on business expansion while having the needs to reduce operational costs. Flexible staffing services is an effective way to achieve such efficiency; and

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- **Potential demand due to change of birth policies:** In 2020, the Chinese government is expected to initiate plans to remove all outstanding limits on the number of children a family is eligible to have. Without the number of birth limit, an increasing number of female employees are expected to take advantage of additional maternity leave. For companies, it is crucial to find temporary labor to replace vacancies during cases of maternity leave, which drives up the demand for flexible staffing.

Competitive Landscape

China’s flexible staffing services market remains fragmented, with around 10,000 service providers operating in the market in 2018. We ranked the first among all the flexible staffing services providers in terms of number of flexible staff hired by the end of 2018, with a market share of 1.5%, and the largest flexible staffing services provider in terms of revenue generated from flexible staffing business in 2018, with a market share of 2.5%. Total revenue generated from flexible staffing business and number of flexible staff hired in 2018 of top five players account for approximately 9.3% and 4.9% of total market share, respectively.

Among the top five market leaders, we also have the highest contribution from new economy clients with over 70% of the total flexible staffing business revenue generated from them in 2018, compared to the approximately 30.0% to 50.0% for the others.

Top 5 players in the flexible staffing services market in China, 2018

Company	Number of flexible staff hired ('000 persons) by the end of 2018	Market share in terms of staff hired (%)	Revenue generated from flexible staffing business (RMB Billions) 2018 ⁽⁵⁾	Market share in terms of revenue generated from flexible staffing business (%) 2018
Our Group	19.4	1.5%	1.5	2.5%
Company A ⁽¹⁾	17.0	1.3%	1.4	2.4%
Company B ⁽²⁾	10.7	0.8%	1.0	1.7%
Company C ⁽³⁾	9.0	0.7%	0.7	1.2%
Company D ⁽⁴⁾	7.6	0.6%	0.9	1.5%

Source: CIC Report

Notes:

- (1) Company A is a Sino foreign co-operative joint venture.
- (2) Company B is a Sino Hong Kong co-operative joint venture.
- (3) Company C is a state-owned enterprise.
- (4) Company D is a foreign-owned enterprise.
- (5) The revenue generated from flexible staffing business in 2018 does not include VAT. The ranking in terms of revenue generated from flexible staffing business in the first half of 2019 has not been disclosed due to data availability.

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Future Trends and Opportunities

More professional and specialized service offerings

An increased division of labor could help to improve the proficiency of workers, save on elapsed work time, reduce the complexity of demands on labor, and improve the labor productivity of enterprises. The essence of HR outsourcing is to encourage improvements in the division of labor. With increasingly intensified competition and an increasing demand for services among clients, flexible staffing services providers will be required to provide more detailed and customized services for certain segmented industries or based on certain functions, such as, client services for certain industries, foreign language client services, IT R&D, pharmaceutical R&D, etc.

Increased market consolidation and development of one-stop HR solution platforms

Flexible staffing services providers are competing based on their ability to locate suitable talent to fill outstanding vacancies. As a result of intense competition and a shortage in the labor supply, it is expected that small-scale providers of flexible staffing services will fade away or will be absorbed by larger service providers due to their limited recruitment capabilities, or competitive strengths. Therefore, the market is expected to become increasingly more concentrated with the leading participants consequently dominating a larger share of the market. In addition, large-scale flexible staffing services providers who are able to offer a comprehensive HR services portfolio, will benefit from increased client stickiness due to better service quality, convenient user experience and higher client switching costs.

New recruitment method driven by technology and innovation

Traditionally, flexible staffing services providers recruit flexible staff through contacting candidates by phone, or subcontracting it to third-parties. The traditional recruitment method lacks efficiency and precision, and the recruitment of 100 staff from application to offer acceptance usually takes 10 working days or more. In order to improve the recruitment efficiency of the flexible staffing services, flexible staffing services providers have started to develop self-built O2O recruitment platforms, allowing the flexible staffing services providers to convert high online traffic into the offline recruitment process, and offering one-stop result-oriented flexible staffing services with the higher conversion rate, shorter lead time, and better user experience.

Threats and Challenges

Keeping up with changing employment laws and regulations can be challenging for flexible staffing services providers. There are regulations involved in every process, from hiring practices, to wage payment, and to tax deduction. The PRC government often revisits and revises these regulations to suit the changing social environment. Therefore, it is important for flexible staffing services providers to keep abreast of and comply with the most up-to-date laws and regulations to avoid potential legal exposure.

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Entry Barriers

Abundant Industry Knowledge and Talent Management Experience

Flexible staffing services providers need to understand the unique features of each industry they serve, such as profiles and business process of targeted clients, as well as the industry trends, so that they can better accommodate the talent needs of the clients. On the other hand, flexible staffing services providers also need to accumulate experience in talent management like training, on field management, communications, and compensation and benefits for talents, to maintain a high retention rate. After years of exploration and involvement, many of the existing leading flexible staffing services providers have accumulated abundant industry knowledge and experience to provide clients with quality talents in a short period of time, as well as to manage talents effectively. New entrants may lack the necessary industry knowledge and talent management experience that would allow them to provide and implement flexible staffing solutions in an effective manner.

Capabilities of Building and Serving Nationwide Network

Flexible staffing services providers usually need to build a nationwide service network, in order to fulfill the talent demand in different cities for cross-city operations of clients. Flexible staffing services providers also need to serve nationwide clients in a coordinated and efficient way, because employment and labor policies vary between cities, and requests for laborers of a certain client in each region may differ. As a result, the competencies of building and serving nationwide network is hard for new entrants to achieve.

High Switching Costs

The flexible staffing industry is characterized by a high degree of client stickiness. Thus, enterprises are more inclined to engage with the same flexible staffing services provider once a cooperative relationship has been developed, as the service provider has already accumulated a deep understanding of the talent demands of a given client as well as its complex internal HR related processes. Thus, a long-term cooperative relationship results in high switching cost for clients.

Advanced Technological Applications

Enterprises are inclined to engage well-established service providers with technological scalability based on many years of accumulated development, which cannot be readily achieved by new entrants in only a short period of time. Cutting-edge technologies have been considered one of the key areas of competitiveness in the flexible staffing services market. For instance, cloud-computing technology, big data technology, and mobile terminal end technology are all considered major technological applications that require a significant amount of capital investment, which therefore serves to limit new participants seeking to enter into the market.

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OVERVIEW OF THE TALENT ACQUISITION MARKET IN CHINA

Market Overview

China’s talent acquisition services market mainly consists of online recruitment website services, headhunting, recruitment process outsourcing, and campus recruitment. There were approximately 20,000 talent acquisition service providers in China as at end of 2018 and the market is highly fragmented. Traditionally, the talent acquisition service providers can be divided into online players and offline players, and the industry is expected to become increasingly more concentrated over the next five years, while players that are able to convert online traffic into offline recruitment process, and offers one-stop result-oriented recruitment services with a high conversion rate and a short lead time are expected to gain more share in the talent acquisition market in the near future. Compared with other large talent acquisition service providers, we focus on the synergy between O2O recruitment and flexible staffing services. In terms of market size, the talent acquisition market grew from approximately RMB59.7 billion in 2014 to approximately RMB135.2 billion in 2018, representing a CAGR of 22.7%, and is expected to reach approximately RMB341.1 billion by 2023, representing a CAGR of 20.3%.

Growth Drivers

The development of the talent acquisition service market in China is primarily driven by the following factors:

- **Increasing demand from businesses due to industry upgrade:** Industry upgrade is associated with higher requirements for talents employed in Chinese businesses. Moreover, the decrease of working-age population which creates more difficulty for enterprises to find qualified talents is also expected to generate further demand for high-quality talents. Thus, it is projected that the talent acquisition services market will maintain a sustainable growth trend during the next five years and beyond;
- **Increasing budget for talent acquisition services:** Chinese businesses have been allocating an increasing portion of their budget into talent acquisition services in order to attract more talents so that they can maintain their competitive advantages. Therefore, increased budgets are expected to further contribute to the size of the talent acquisition services market; and
- **Application of new technologies:** The application of technologies, such as AI and the internet, has improved the efficiency of matches between jobs and talents, enabling the recruitment process to become more convenient and efficient. In addition, technologies, such as application tracking systems and real-time online communication platforms, keep talents actively engaged throughout the whole recruitment process. Furthermore, with the implementation of these technologies, the recruiting cycle time can be cut from a few weeks to a few days, and even a few hours in some cases. Hence, new technologies are going to continue driving the development of the talent acquisition services market.

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OVERVIEW OF THE HR SERVICES MARKET IN INDIA

The Indian HR services market is a fast-growing and diversified industry consisting of HR outsourcing services, talent acquisition services and other HR services. The flexible staffing services market in India has expanded from USD2.7 billion in 2014 to USD4.8 billion in 2018, registering a CAGR of 15.5%, and is expected to further grow at a CAGR of 14.9% to USD9.6 billion in 2023, driven by increasing demand for flexible staff under the rapid expansion of the Indian economy, government efforts to transform unorganized home-based and self-employed workforce to organized labor employment and ongoing demand from foreign enterprises entering the Indian market. According to CIC, China has emerged as one of the fastest growing sources of foreign direct investment into India and many Chinese enterprises have entered the India market, which will bring significant business opportunity for Chinese HR services providers.

Separately, India’s talent acquisition services market has also experienced rapid growth from USD2.9 billion in 2014 to USD5.9 billion in 2018, registering a CAGR of 19.4%, and is expected to grow at a CAGR of 15.8% to USD12.3 billion in 2023, driven by increasing demand for highly skilled talents, increasing enterprise budgets, application of new technology and social media. Please refer to the section headed “Business — Our Strategies” in this document for details on our market expansion to India.

REGULATORY OVERVIEW

REGULATORY ENVIRONMENT IN THE PRC

Regulations relating to HR services

HR services providers in China are mainly regulated by the MOHRSS. The principal regulations applicable to HR services providers include (i) the Provisions on Employment Services and Employment Management (《就業服務與就業管理規定》) promulgated on November 5, 2007 and latest amended on December 14, 2018 by the MOHRSS, (ii) the Provisions on Talent Market Administration (《人才市場管理規定》) jointly promulgated by the PRC Ministry of Personnel, the PRC State Administration for Industry and Commerce on September 11, 2001 and latest amended on April 30, 2015 by the MOHRSS and (iii) the Interim Regulation on Human Resources Market (《人力資源市場暫行條例》) promulgated by the PRC State Council on June 29, 2018.

Under the Provisions on Employment Services and Employment Management, the Provisions on Talent Market Administration, the Notice on Further Strengthening Work Related to Human Resources Market Supervision (《關於進一步加強人力資源市場監管有關工作的通知》), promulgated by the MOHRSS on January 29, 2010 and the Interim Regulation on Human Resources Market, any entity providing talent recruitment services in China must obtain a HR Services Licence from the administrative department of human resources and social security. Besides, the profit-making HR service organization shall file with the administrative department of human resources and social security 15 days from the date of carrying out services such as the collection and release of HR supply and demand information, employment and entrepreneurship guidance, human resource management consulting, human resource assessment, HR training, and HR service outsourcing. Where a profit-making HR service organization establishes a branch, it shall, within 15 days from the date of completion of the industrial and commercial registration, report in writing to the administrative department of human resources and social security where the branch office locates.

Based on the Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies (《中外合資人才中介機構管理暫行規定》), which was last amended by the MOHRSS on April 30, 2015, in the case of foreign investors engaged in talent intermediary services or other related services intending to launch talent intermediary services in the PRC, they are required to set up joint ventures with Chinese talent intermediary service agencies, and obtain a HR Services Licence from the competent authorities. Pursuant to this regulation, domestic investors shall hold at least 51% of the equity interests in the relevant Sino-foreign joint venture. Foreign investors are also required to be foreign companies, corporations and other economic organizations providing talent intermediary services for at least three years and each investor of the relevant Sino-foreign joint venture should possess proven reputation and comply with requirements such as staff qualifications and system infrastructure. Pursuant to Supplementary Provisions on the Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies (關於《中外合資人才中介機構管理暫行規定》的補充規定) and the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplemental agreement(s), (《內地與香港關於建立更緊密經貿關係的安排》及其補充協議) in case of a Hong Kong service provider, the above equity ratio restriction will be removed and a qualified Hong Kong service provider could directly or indirectly hold 100% equity interest in PRC companies providing talent intermediary services, while other provisions for the establishment of a sino-foreign joint venture talent intermediary service provider are still implemented by reference to the Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies.

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In addition, according to the Provisions on Talent Market Administration, as a talent recruitment service provider, we are prohibited from providing fake information, making false promises and publishing fake recruitment advertisement. According to the Contract Law of PRC (《中華人民共和國合同法》), which was implemented on October 1, 1999, (an intermediation contract) is defined as a contract whereby an intermediary presents to its client an opportunity for entering into a contract or provides the client with other intermediary services in connection with the conclusion of a contract, and the client pays the intermediary service fees. Pursuant to the Contract Law, an intermediary must provide authentic information relating to the proposed contract. If an intermediary intentionally conceals any material fact or provides false information in connection with the performance of the proposed contract, which results in harm to the client's interests, the intermediary may not claim service fees and is liable for the damages caused.

Regulations relating to value-added telecommunication services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”) promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating licence prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and the VATS. According to the Catalogue of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “**MII**”, which is the predecessor of MIIT) and last amended by MIIT on June 6, 2019, Internet information services and call center services fall within the VATS.

Foreign direct investment in telecommunications companies in China is governed by the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定》(2016年修訂)), promulgated by the State Council on December 11, 2001 and last amended on February 6, 2016. According to such regulation, the ultimate foreign equity ownership in a VATS provider shall not exceed 50%, except for operating e-commerce business. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a proven track record and experience in operating VATS under the relevant regulations. Foreign investors that meet these requirements must obtain approvals from the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. Furthermore, according to the Measures for the Administration of Telecommunications Business Licensing (revised in 2017)(《電信業務經營許可管理辦法》(2017年修訂)), promulgated by the MII on March 1, 2009 and last amended on July 3, 2017, with respect to a foreign-invested company which has obtained the above mentioned approval and got the relevant licence, in the event of change of its foreign shareholders, the company shall re-file an application with the relevant government authority that issued the original licence, subject to substantive examination and discretion of the competent authority.

Investment activities in the PRC by foreign investors are principally governed by the Catalogue and the New Negative List. The Catalogue and the New Negative List classified the foreign-invested industries into two categories, namely (i) encouraged industries and (ii) industries within the catalogue of special administrative measures. As updated and clarified by the New Negative List, industries within the catalogue of special administrative measures are further divided into two sub-categories: “restricted” industries and “prohibited” industries. Unless otherwise prescribed by the PRC laws, industries which are not set out in the Catalogue and the New Negative List are permitted foreign-invested industries. The New

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Negative List was issued by the MOFCOM and the National Development and Reform Commission on June 30, 2019, which took effect on July 30, 2019 and superseded the Old Negative List. The Old Negative List imposed a restriction on foreign ownership of not holding more than 50% in VATS (except for operating e-commerce business), while the New Negative List now expands the exception into the operation of e-commerce business, domestic multi-party communications, storage and forwarding services, and call centers. Please refer to the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document for further details on subsequent development as a result of the New Negative List.

Regulations relating to the provision of internet content services

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of Internet information services. The Internet Measures classified Internet information services into commercial Internet information services and non-commercial Internet information services and a commercial operator of Internet content provision services must obtain a VATS Licence for the provision of Internet information services from the appropriate telecommunications authorities.

In addition to the Telecommunications Regulations and other regulations above, Mobile Internet applications (the “**APPs**”) and the Internet application store (the “**APP Store**”) are specially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “**APP Provisions**”), which was promulgated by the Cyberspace Administration of China (the “**CAC**”) on June 28, 2016 and became effective on August 1, 2016. The APP Provisions regulate the APP information service providers and the APP Store service providers, and the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively. The APP information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations, including real-name system, protection of users’ information, examination and management of information content, etc..

Regulations relating to information security and censorship

Internet content in China is regulated and restricted from a state security standpoint. The Standing Committee of the PRC National People’s Congress (the “**SCNPC**”) enacted the Decisions on the Maintenance of Internet Security (《關於維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights.

In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which were amended by the State Council on January 8, 2011 and prohibit using the Internet in ways which, among others, result in a leakage of state

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secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If a VATS Licence holder violates these measures, the PRC government may revoke its VATS Licence and shut down its websites.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks including us shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of PRC. Their purchase of network products and services that may affect national security shall be subject to national cybersecurity review.

On May 2, 2017, the CAC issued a trial version of the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), which took effect on June 1, 2017, to provide for more detailed rules regarding cybersecurity review requirements.

Regulations relating to privacy protection

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) (the “**Internet Protection Measures**”) which took effect on March 1, 2006. The Internet Protection Measures require Internet service providers including us to take proper measures including anti-virus, data back-up and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. Internet services providers including us are prohibited from unauthorized disclosure of users' information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users' correspondences.

On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. The Provisions stipulate that without the consent of users, Internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as “**personal information of users**”), nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations. The Provisions also requires that Internet information service providers shall properly keep the personal information of users; if the preserved personal information of users is divulged or may possibly be divulged, Internet information service providers shall immediately take remedial measures; where such incident causes or may cause serious consequences, they shall immediately report the same to the

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telecommunications administration authorities that grant them with the Internet information service licence or filing and cooperate in the investigation and disposal carried out by relevant departments. Failure to comply with such requirements may result in a fine between RMB10,000 and RMB30,000 and an announcement to the public.

In December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the Internet.

In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of users’ personal information in the provision of telecommunication services and Internet information services in China and the personal information includes a user’s name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. Telecommunication business operators and Internet service providers are required to constitute their own rules for the collecting and use of users’ information and they cannot collect or use of user’s information without users’ consent. Telecommunication business operators and Internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and Internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Telecommunication business operators and Internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

According to the Cyber Security Law of the People’s Republic of China, network operator shall not collect personal information irrelevant to the services it provides or collect or use personal information in violation of the provisions of laws or agreements between both parties.

Pursuant to General Rules on the Civil Law of the PRC (《中華人民共和國民法總則》), which was promulgated by the PRC National People’s Congress on March 15, 2017 and became effective on October 1, 2017, the personal information of a natural person shall be protected by law. Any organization or individual that needs to obtain the personal information of others shall obtain such information pursuant to the law and ensure information security, and may neither illegally collect, use, process or transmit the personal information of others, nor illegally trade, provide or disclose the personal information of others. Anyone whose civil rights and civil interests, including personal information, are infringed upon shall have the right to seek tort liability against the infringer.

On May 8, 2017, the Supreme People’s Court and the Supreme People’s Procuratorate released the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens’ Personal Information (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) (the “**Interpretations**”), effective from June 1, 2017. The Interpretations clarify several concepts regarding the crime of “infringement of citizens’ personal information” stipulated by Article 253A of the Criminal Law of the People’s Republic of China (《中華人民共和國刑法》), including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Interpretations specify the standards for determining “serious circumstances” and “particularly serious circumstances” of this crime.

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In addition, according to the Provisions on Cyber Supervision and Inspection by Public Security Authorities (《公安機關互聯網安全監督檢查規定》), which promulgated by the Ministry of Public Security on September 15, 2018 and took effective on November 1, 2018, if the public security authorities find that the internet service providers have stolen or illegally obtained or illegally sold or illegally provided personal information to others, and such cases do not constitute a crime, the internet service providers should be punished in accordance with the Article 64 of the Cyber Security Law of the PRC.

Regulations relating to labor dispatch services

Labor dispatch services providers in China are mainly regulated by the MOHRSS. The principal regulation applicable to labor dispatch services providers are the Measures for the Implementation of Administrative Licence for Labor Dispatch (《勞務派遣行政許可實施辦法》) promulgated by the MOHRSS on June 20, 2013 and the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the MOHRSS on January 24, 2014.

Under the Measures for the Implementation of Administrative Licence for Labor Dispatch, the labor dispatch service provider shall apply to the human resources and social security administrative department at its domicile (hereinafter referred to as the licensing authority) for an administrative licence according to law. Where a labor dispatch service provider establishes a subsidiary to operate the labor dispatch services, the subsidiary shall apply to the local licensing authority for an administrative licence; if the labor dispatch service provider establishes a branch to operate the labor dispatch services, it shall report the licensing authority in writing, and the branch shall file with the local administrative department of human resources and social security.

Under the Interim Provisions on Labor Dispatch, the labor dispatch service provider shall:

- (i) truthfully inform the dispatched laborer of the provisions of Article 8 of the Labor Contract Law (as defined below), the rules and regulations to be observed, and the contents of the labor dispatch agreement;
- (ii) establish a training system to conduct onboarding knowledge and safety education training for dispatched workers;
- (iii) pay the labor remuneration and conduct the related treatment of the dispatched laborers in accordance with the state regulations and the labor dispatch agreement;
- (iv) in accordance with the provisions of the State and the labor dispatch agreement, pay social insurance premiums for the dispatched workers in accordance with the law, and handle the relevant procedures for social insurance;
- (v) urge the institutions that accept employment in the form of labor dispatch to provide labor protection and labor safety and sanitation conditions for the dispatched workers according to law;
- (vi) issue the relevant proof regarding dissolving or terminating the labor contract according to law;
- (vii) assist in handling disputes between dispatched laborers and the institutions that accept employment in the form of labor dispatch;
- (viii) conduct other matters as stipulated by laws, regulations and rules.

In addition, according to the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which was implemented on January 1, 2008 and amended on December 28, 2012, the labor dispatch service provider shall conclude a fixed-term labor contract with the dispatched laborer for more than two years, and pay the labor remuneration on a monthly basis; when the dispatched laborer has no work, the labor dispatch service provider shall pay to the dispatched laborers according to the minimum wage standard prescribed by the local people’s government monthly. The dispatched laborers of the labor dispatch service provider shall enter into labor dispatch agreements with the institutions that accept employment in the form of labor dispatch. The labor dispatch agreement shall stipulate the number of dispatched posts and personnel, the duration of dispatch, the amount of labor remuneration and social insurance premiums, the method of payment, and the liability for breach of agreement. In the event of a violation of any legal provisions of the Labor Contract

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Law, administrative penalties may be imposed on the dispatch service provider by the competent PRC government authority in charge of labor administration, including warning, rectification orders, fines, orders for payment of wages and compensation to labors, revocation of business licences and other penalties. Any institution accepting dispatched laborers may be held jointly and severally liable together with the dispatch service provider in case harm is done to labors as a result of such institution’s violation of the Labor Contract Law.

Regulations relating to intellectual property

The Trademark Law

Trademarks are protected by the Trademark Law of the PRC (Revised in 2013) (《中華人民共和國商標法》(2013年修訂)) which was last amended on April 23, 2019 and will come into effect on November 1, 2019 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on August 3, 2002 (Revised in 2014) (《中華人民共和國商標法實施條例》(2014年修訂)). In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the SAMR handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve (12) months prior to the expiration of the term.

As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

The Copyright Law

The Copyright Law of the PRC (Revised in 2010) (《中華人民共和國著作權法》(2010修訂)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”), promulgated by the National Copyright Administration on February 20, 2002, regulates registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts.

The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “**CPCC**”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例》(2013年修訂)).

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Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》) (No.20 FS [2012]) which issued by the Supreme People’s Court on December 17, 2012 and came into effect on January 1, 2013, provides that web players or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

Domain Names

Under the Measures on Administration of Internet Domain Names (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) issued by the MIIT as of August 24, 2017 and effective as of November 1, 2017, and the Implementing Rules on Registration of Domain Names (《中國互聯網絡信息中心域名註冊實施細則》) (the “**Implementing Rules**”) issued by China Internet Network Information Center on May 28, 2012, which became effective on May 29, 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

According to the Domain Name Measures and Implementing Rules, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure.

Regulations relating to foreign exchange

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》), last amended on August 5, 2008, and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi.

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

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Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Notice No. 59**”) promulgated by SAFE and last amended on May 4, 2015, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities and the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party, and further improve the administration on exchange settlement of foreign exchange capital of foreign invested entities.

On February 13, 2015, SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Notice No. 13**”) effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

The Notice of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Notice No. 19**”) was promulgated on March 30, 2015 and became effective on June 1, 2015. According to the SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration.

The Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Notice No. 16**”) was promulgated and became effective on June 9, 2016. According to the SAFE Notice No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Notice No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

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In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》), or Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years’ losses before remitting profits. Moreover, pursuant to SAFE Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

Foreign Exchange Registration of Overseas Investment by PRC Residents

In July 2014, SAFE promulgated the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or Circular 37, which replaced the former circular commonly known as Circular 75 promulgated by SAFE in October 2005. Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle.” Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

In February 2015, SAFE released the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or Circular 13, which has amended Circular 37 by requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

Regulations Relating to Stock Incentive Plans

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “**Stock Option Rules**”), individuals participating in any stock incentive plan of any overseas publicly listed company who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, subject to a few exceptions are required to register with SAFE or its local branches and complete certain other procedures through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. The

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participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives (《國家稅務總局關於股權激勵有關個人所得稅問題的通知》) promulgated by the State Administration of Tax (the “SAT”) and effective from August 24, 2009, listed companies and their domestic organizations shall, according to the individual income tax calculation methods for “wage and salary income” and stock option income, lawfully withhold and pay individual income tax on such income.

Regulations Relating to Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC (《中華人民共和國公司法》) last amended in 2018, the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) last amended in 2016 and the Implementation Rules of the Foreign Invested Enterprise Law (《外資企業法實施細則》) promulgated in 1990 and last amended in 2014, the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) last amended in 2016 and its implementation regulations (《中華人民共和國中外合資經營企業法實施條例》) promulgated in 1983 and last amended in 2019, and the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) last amended in 2017 and its implementation regulations (《中華人民共和國中外合作經營企業法實施細則》) last amended in 2017. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. These reserve funds may not be distributed as cash dividends. A wholly foreign-owned enterprise may allocate a portion of its after-tax profits to its employee welfare and bonus funds at its discretion. Profit of a wholly foreign-owned enterprise shall not be distributed before the losses thereof for the previous accounting years have been made up. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Regulations relating to company establishment and foreign investment

Under the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) last amended in 2016, and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic of China (《中華人民共和國外資企業法實施細則》) last amended on February 19, 2014, an application for establishing a wholly foreign-owned enterprise shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC (the “MOFTEC”, currently known as the MOFCOM) before the approval certificate is issued. Within 90 days of the date of receipt of an

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application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a wholly foreign-owned enterprise is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to, and collect the business licence from the administrative authority for industry and commerce.

Under the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures and the Regulations for the Implementation of the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures, the proportion of investment contributed by a foreign investor as its share of the registered capital of an equity joint venture shall in general be no less than 25%.

An application for establishing a Sino-Foreign Equity Joint Venture shall be subject to examination and approval by the MOFTEC before the approval certificate is issued. Within 3 months of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a Sino-Foreign Equity Joint Venture is approved by the Examination and Approval Authority, the foreign investors shall, within 1 month of the date of receipt of the approval certificate, submit registration to, and collect the business licence from the administrative authority for industry and commerce.

On September 3, 2016, the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) (the “**Decision on Revision of Four Laws**”) was promulgated and became effective on October 1, 2016. The Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Filings Measures**”) was published by MOFCOM and last amended on June 29, 2018. The Decision on Revision of Four Laws and the Filings Measures revised relevant administrative approval provisions of the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises, the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures, the Law of the People’s Republic of China on Sino-Foreign Cooperative Joint Ventures and the Law of the People’s Republic of China on the Protection of the Investments of Taiwan Compatriots (《中華人民共和國臺灣同胞投資保護法》) and the relevant formality regime for the incorporation and change of foreign-invested enterprises, whereby if the incorporation or change of foreign-invested enterprises and enterprises funded by Taiwan compatriots does not involve special access administrative measures prescribed by the PRC government, the examination and approval process is now being replaced by the record-filing administration process. According to the Filings Measures, where the incorporation of foreign-invested enterprises do not involve the special access administrative measures prescribed by the PRC government, such enterprises shall go through the record-filing procedures after obtaining the prior approval of the enterprise name and prior to the issuance of a business licence, or within 30 days after the issuance of a business licence. Within the record-filing scope of the Filings Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises’ property or rights and interests to others and other matters, the foreign-invested enterprises shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system. On October 8, 2016, the announcement of the NDRC and the MOFCOM [2016] No. 22 (中華人民

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共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號) was published and specified that the Special Administrative Measures (Negative List) for the Access of Foreign Investment (外商投資准入特別管理措施(負面清單) (as amended from time to time) shall be in line with the Catalogue. On June 29, 2018, the MOFCOM amended the Filings Measures, which took effective on the same date.

According to the amended Filings Measures, a record-filing administration process shall apply in the event that foreign investors (i) merge and acquire non-foreign-invested enterprises within PRC, and (ii) undertake strategic investment into domestic listed companies, provided that it does not involve special access administrative measures or merge and acquisition with related party.

On March 15, 2019, the National People’s Congress approved the 2019 FIL, which will come into effect on January 1, 2020. The 2019 FIL is the fundamental law governing the foreign investment in PRC, which will replace the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》) as the general law applicable for the foreign investment within the PRC.

The 2019 FIL defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations (“**Foreign Investor(s)**”), and specifically stipulates four forms of investment activities as foreign investment, namely, (i) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (ii) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (iii) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

The 2019 FIL establishes the administration systems for foreign investment, which mainly consists of pre-establishment national treatment plus negative list system, foreign investment information report system and security review system. The said systems, together with other administration measures stipulated under the 2019 FIL, constitute the framework of foreign investment administration. The pre-establishment national treatment refers to granting to foreign investors and their investments, in terms of investment access, the treatment no less favorable than that granted to domestic investors and their investments, while the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investments outside the scope of the negative list system. The negative list under the negative list system will be released or approved by the State Council.

The 2019 FIL sets forth principles and measures to promote foreign investment in the PRC and specifically provides that the PRC legally protects Foreign Investors’ investment, earnings and other legitimate rights and interests in the PRC.

The 2019 FIL further provides that foreign-invested enterprises established before the 2019 FIL coming into effect may retain their original form of organizations within five years after the 2019 FIL comes into effect. The specific implementing measures will be prescribed by the State Council.

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Regulations relating to M&A and overseas [REDACTED]

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the China Securities Regulatory Commission (the “CSRC”), promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for [REDACTED] purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the [REDACTED] and trading of such special purpose vehicle’s securities on an overseas stock exchange.

Regulations relating to employment and social welfare

The Labor Contract Law

The Labor Contract Law is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. According to the Labor Contract Law, among others: (i) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; and (ii) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law.

According to the Labor Law of the PRC (《中華人民共和國勞動法》) last amended on December 29, 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

On December 29, 2007, the SCNPC promulgated the Law of the People’s Republic of China on Labor-dispute Mediation and Arbitration (《中華人民共和國勞動爭議調解仲裁法》), according to which, when a labor dispute arises and the parties are not willing to have a consultation, or the consultation fails, or the settlement agreement reached is not performed, they may apply to a mediation institution for mediation. Where the parties are not willing to have mediation, or the mediation fails, or the mediation agreement reached is not performed, they may apply to a labor-dispute arbitration commission for arbitration. Where they are dissatisfied with the arbitral award, they may initiate a litigation to a People’s court, unless otherwise provided for in this law.

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The PRC Employment Promotion Law (《中華人民共和國就業促進法》), which became effective on January 1, 2008 and was further amended on April 24, 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or domicile. Under this law, enterprises are also required to provide employees with vocational training.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) last amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999, the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on December 29, 2018 and the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》) implemented on January 22, 1999 and amended on March 24, 2019, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

Furthermore, according to the Notice by the General Office of the State Administration of Taxation on Conducting the Relevant Work Concerning the Administration of Collection of Social Insurance Premiums in a Steady, Orderly and Effective Manner (國家稅務總局辦公廳關於穩妥有序做好社會保險費徵管有關工作的通知) issued on September 13, 2018 and the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Security Contributions (人力資源和社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知) issued on September 21, 2018, all the local authorities responsible for the collection of social insurance are strictly forbidden to conduct self-collection of historical unpaid social insurance contributions from enterprises. Notice of the State Administration of Taxation on Implementing Measures to Further Support and Serve the Development of Private Economy (國家稅務總局關於實施進一步支持和服務民營經濟發展若干措施的通知) issued on November 16, 2018 further underlines that tax authorities at all levels may not organize self-collection of arrears of taxpayers including private enterprises in the previous years. Notice of the General Office of the State Council on Promulgation of the Comprehensive Plan for the Reduction of Social Insurance Premium Rate (《國務院辦公廳關於印發<降低社會保險費率綜合方案>的通知》) issued on April 1, 2019 generally reduces the social insurance contribution burden of enterprises, underlines that the duties for collection of social insurances premium paid by the enterprises in any province shall not be transferred to tax authorities until the condition of the province is mature, and re-emphasizes that local authorities shall not conduct self-collection of historical unpaid social insurance contributions from enterprises.

In addition, according to the Interim Measures for Participation in the Social Insurance System by Foreigners Working within the Territory of China (在中國境內就業的外國人參加社會保險暫行辦法) (the “Interim Measures”), which was promulgated by the MOHRSS on September 6, 2011 and became effective on October 15, 2011, employers who recruit foreigners shall participate in the basic pension insurance, unemployment insurance, basic

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medical insurance, occupational injury insurance, and maternity leave insurance in accordance with the relevant laws, with the social insurance premiums to be contributed respectively by the employers and foreigner employees as required. In accordance with such Interim Measures, the social insurance administrative authorities and agencies shall have the right to oversee and inspect the legal compliance of foreign employees and employers. Employers who do not pay social insurance premium in conformity with the laws shall be subject to the administrative provisions provided in the Social Insurance Law and the relevant regulations and rules mentioned above.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) last amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

Regulations relating to tax

Enterprise Income Tax

On March 16, 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which was last amended on December 29, 2018 and on December 6, 2007, the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) which was amended on April 23, 2019 (the “EIT Law”). According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed a permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the permanent establishment or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the SAT and last amended on December 29, 2017 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

The EIT Law provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises”, and gains derived by such investors, which (i) do not have an establishment or place of business in the PRC or (ii) have

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an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside.

Pursuant to the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “**Circular 7**”) promulgated by the SAT on February 3, 2015, if the non-resident enterprises indirectly transfer the assets such as the equity interest of PRC resident enterprises through the implementation of arrangements without reasonable commercial purposes evading EIT liability, such transfer shall be deemed as the direct transfer of assets such as the equity interest of PRC resident enterprises according to the Article 47 of the EIT Law.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise satisfies relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%.

However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice No. 81**”) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement on Issues Relating to “Beneficial Owner” in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), which was promulgated on February 3, 2018 and was effective on April 1, 2018, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Value-added Tax and Business Tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) was promulgated by the State Council and last amended on November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則》(2011年修訂)) was promulgated by the Ministry of Finance and the SAT and last amended on October 28, 2011 and came into effect on November 1, 2011 (collectively, the “**VAT Law**”).

According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax.

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), last amended on November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The scope of services which constitute

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taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (《營業稅稅目稅率表》) attached to the regulation. On November 19, 2017, the State Council issued the Decision of the State Council on Repealing the “Provisional Regulations of the PRC on Business Tax” and Revising the “Provisional Regulations of the PRC on Value-added Tax” (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》) and repealed the Provisional Regulations of the PRC on Business Tax.

Since January 1, 2012, the Ministry of Finance (the “MOF”) and the SAT have implemented the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》) (the “VAT Pilot Plan”), which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the implementation circulars released by the MOF and the SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) which became effective on May 1, 2016, entities and individuals engaging in the sale of services, intangible assets or immovable assets within the territory of the PRC are required to pay value-added tax instead of business tax and for general VAT payers engaged in modern service industries, the applicable VAT rate is 6%. Furthermore according to the Notice of the Ministry of Finance and the State Administration of Taxation on Further Clarifying the Policies on the Deduction of Labor Dispatch Service Fees and Turnpike Tolls and Other Policies during the Implementation of the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部、國家稅務總局關於進一步明確全面推開營改增試點有關勞務派遣服務、收費公路通行費抵扣等政策的通知》) which became effective on May 1, 2016, for labor dispatch service and HR service outsourcing, whereas tax payers opt to file VAT on a simplified approach under relevant VAT regulations, 5% VAT is levied on a net-income basis.

Dividend Withholding Tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident enterprise investors (or 20% in the case of non-PRC individual investors) who do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Announcement on Issues Relating to “Beneficial Owner” in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), which was promulgated on February 3, 2018 and was effective on April 1, 2018, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

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REGULATORY ENVIRONMENT IN INDIA

According to the applicable foreign investment laws in India, a foreign company can set up a 100% foreign-owned subsidiary in India to provide professional recruitment and flexible staffing services.

At present our Group does not have any subsidiary or branch office in India and we provide recruitment services to a strategic client from outside India. We assist clients in recruiting staff by availing the services of a recruitment agency in India and charge our clients outside India for the provision of such services when there is a successful placement. As such, there are no significant regulatory requirements applicable to us under Indian law in respect of our current operations.

Applicable laws and regulations after establishment of our presence in India

In the event that we provide recruitment services, including flexible staffing services, directly within India, such as through our own employees, we would need to establish a business presence in India by setting up a subsidiary or a branch office in India, which is a requirement for doing business in India.

An India-incorporated subsidiary would typically be set up either in the form of a limited liability company or a limited liability partnership. The procedures to set up such an entity in India include obtaining a name approval, drafting of charter documents, payment of stamp and registration fees and obtaining director identification numbers and digital signatures for the directors.

In order to commence business in India, an India-incorporated entity needs to obtain certain key registrations and licences, particularly under employment and taxation laws and thereafter, comply with regulatory requirements, such as those in relation to periodic filings and maintenance of documents.

Apart from general employment law requirements set out below, the Contract Labor (Regulation and Abolition) Act, 1970 (“**CLRAA**”) will be applicable if we provide flexible staffing services in India. The CLRAA regulates the employment of contract labor in certain establishments and seeks to abolish contract labor under certain circumstances. Contract employees hired under flexible staffing arrangements are likely to be held to be contract workmen under the CLRAA.

The CLRAA, *inter alia*, applies to every establishment in which 20 or more workmen are employed as contract labor. In this case, the establishment would be required to obtain registration as a “principal employer” under the CLRAA. A contractor (who provides the employees) with 20 or more contract workmen needs to obtain a licence under the CLRAA. “Workmen” covers all skilled and unskilled labor but excludes employees whose function is primarily supervisory, managerial or administrative in nature.

Accordingly, registration and licensing compliances under the CLRAA will become applicable depending on the structure of the flexible staffing arrangement between a flexible staffing service provider and its clients. If a flexible staffing service provider retains contract employees on its employee rolls and supplies them to its clients as part of the flexible staffing arrangement, depending on employee thresholds, the flexible staffing service provider will likely need to obtain a licence as a contractor and the client may need to obtain registration as principal employer under the CLRAA.

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The applicability of employment laws in India varies depending on various factors such as type of activity, number of employees, and type of employees. Working conditions in factories are regulated by the Factories Act, 1948 while working conditions in other establishments are regulated by the applicable state Shops and Establishments Act (“SEA”). The SEA regulates certain matters such as the number of holidays, public holidays, hours of work, and overtime payment requirements.

Provident fund (PF) under the EPF Act is a type of post-employment pension and applies to every establishment with 20 or more employees. It is compulsory for employees earning salary of up to 15,000 Indian Rupees per month. In practice, because of its savings and tax benefits, many employers apply the EPF Act to all employees. Both the employer and the employee have to contribute 12% of the employee’s salary to funds set up under the EPF Act.

The ESI Act applies to employees whose salary is less than 21,000 Indian Rupees per month. Contributions are made by the employer towards an insurance maintained for medical and other benefits of the employees.

Gratuity under the Payment of Gratuity Act, 1972 is a lump sum amount paid to an employee upon leaving employment, provided the employee has completed five years of continuous service, other than in case of death or disablement. It applies to establishments with 10 or more employees and is applicable to all employees regardless of their compensation level. An employer would either obtain an insurance policy or make a provision in its books towards this liability.

Applicable laws and regulations on taxation

India-incorporated companies including subsidiaries of foreign companies are presently taxed at a maximum rate of 35% (including applicable surcharge and cess) under the Indian Income Tax Act. Further, any distribution of profits by an India incorporated company to its shareholders as dividend is subject to a dividend distribution tax at an effective rate of 20.36%. The dividend would be exempt from tax in the hands of the shareholders.

When a client in India makes payments for recruitment services, including flexible staffing services, it would need to deduct tax at source (TDS) at the rate of 2%. The India incorporated service provider would be entitled to claim credit of the TDS against its annual income tax liability.

An India-incorporated company is also required to deduct tax at applicable rates, ranging from 0% to 30% depending on the taxable income) from the salary payable to its employees. While making any such deductions, it is required to consider any tax saving investments and other tax exemptions for which its employees are eligible.

GST of 18% is applicable on fees charged for all staffing services.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on October 14, 2011. Our history can be traced back to the commencement of our business of providing students with vocational training in client service representatives-related services in Chengdu in 2010. Since that time, we have gradually broadened our scope of services and adjusted the focus of our businesses in accordance with client requests and market demand. We now provide one-stop HR solutions comprising flexible staffing services, professional recruitment services, BPO services, corporate training services, labor dispatch services and other miscellaneous services in more than 150 cities in China. We are the leading flexible staffing services provider in China with the only self-developed O2O recruitment platform in flexible staffing market as of June 30, 2019, according to CIC.

Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang are the founders of our Group. They have extensive experience in the HR industry. Further details of their biographies are set out in the section headed “Directors and Senior Management” in this document. Our initial operations were funded by the Founders by way of capital contribution using their personal funds.

On November 4, 2011, we established Renrui (HK), a company with limited liability incorporated in Hong Kong, with our Company as its sole shareholder. On February 29, 2012, we established Chengdu Qicheng WFOE as a wholly foreign-owned enterprise in the PRC with Renrui (HK) as its sole equity holder. On February 2, 2010, Chengdu Tianfu, one of our Consolidated Affiliated Entities, was established. Through the Old Contractual Arrangements entered into with, among others, Chengdu Qicheng WFOE, Chengdu Tianfu has prior to the Reorganization been the primary holding company of our PRC subsidiaries. For further details on the Reorganization, please refer to “— Corporate Restructuring” in this section.

In order to capture the frontrunner opportunities in the HR outsourcing industry, our Company secured LC Fund V, L.P. (“**LC Fund V**”), LC Parallel Fund V, L.P. (“**LC Parallel Fund V**”), Macquarie Corporate Holdings Pty Limited (previously known as Macquarie Capital Group Limited) (“**Macquarie**”), Ma’anshan Zijinghua Shareholding Investment Partnership Corporation (Limited Partnership) (馬鞍山紫荊花股權投資合夥企業(有限合夥)) (“**Ma’anshan**”), VMS Strategic Investment Fund, L.P. (“**VMS**”) and North Sea Investment Company Limited (“**North Sea**”) as [REDACTED] Investors. For further details on the [REDACTED] Investments, please refer to “— [REDACTED] Investments” in this section.

BUSINESS MILESTONES

The following is a summary of our Group’s key business development milestones:

Year	Milestone
2010	<ul style="list-style-type: none">Launched our business of providing students with vocational training in client service representatives-related services in Chengdu (“Training School Services”) through Chengdu TianfuEstablished our regional center for West China in Chengdu
2011	<ul style="list-style-type: none">Established our regional center for North China in Beijing
2012	<ul style="list-style-type: none">Completed Series A Investment led by LC Fund V and LC Parallel Fund VLaunched our Training School Services in Beijing and ShanghaiShifted our focus from individual clients to corporate clients, and to assist them in the recruitment of client service representatives and provide corporate training services to them

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- Launched our business of flexible staffing services and one-stop HR solutions in Chengdu
- Established our regional center for East China in Shanghai
- Established our regional center for Central China in Wuhan
- Established our regional center for South China in Guangzhou
- Secured a leading American multinational technology company which operates e-commerce and cloud computing platform as one of our key clients for our flexible staffing services
- 2014 • Completed Series B1 Investment led by Macquarie
- 2015 • Completed Series B2 Investment led by LC Fund V, LC Parallel Fund V and Macquarie
- Completed the first part of Series C Investment led by Ma’anshan
- 2016 • Our online recruitment platform, 1tJob.com (1 天工作網), currently known as Xiang Recruitment Platform, was recommended as Shanghai Famous Brand (上海名牌) by Shanghai Famous Brand Nomination Committee (上海市名牌推薦委員會)
- Conducted major overhaul, improvement and integration of our key platforms, including our Xiang Recruitment Platform, Rui Recruitment System, Rui Cloud Management System, Rui Home Platform and Integrated Contract Management System within our ecosystem
- 2017 • Recorded over 13,500 staff deployed for our flexible staffing services
- Expanded our businesses of flexible staffing services and one-stop HR solutions to cover more than 150 cities across China by 2017
- Secured ByteDance as one of our key clients for our flexible staffing services
- Launched our BPO business
- Completed the second part of Series C Investment led by Ma’anshan
- Shanghai Renrui obtained the High-Tech Enterprise Accreditation jointly issued by Shanghai Municipal Science and Technology Commission, Shanghai Municipal Tax Service, State Administration of Taxation and Shanghai Municipal Administration of Local Taxation
- Shanghai Renrui was awarded with the Software Enterprise Accreditation and Software Product Accreditation issued by Shanghai Software Industry Association
- 2018 • Recorded over 19,400 staff deployed for our flexible staffing services
- Completed Series D1 and D2 Investment led by VMS and North Sea, respectively
- 2019 • Our Company was awarded with Beijing Top 50 Human Resources Service Brand Award (北京地區人力資源服務品牌50強京人獎) issued by Beijing Human Resources Service Award Organizing Committee (北京人力資源服務京人獎組委會)

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE DEVELOPMENT OF OUR GROUP

Our major subsidiaries and operating entities

The following table sets forth the details of each member of our Group that made a material contribution to our results of operations during the Track Record Period:

Name of company	Principal business activities	Date of incorporation and commencement of business	Place of incorporation	Registered Capital (RMB)	Percentage of equity interests held
Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司)	Flexible staffing and professional recruitment	April 27, 2012	PRC	20,000,000	100%
Shanghai Renrui	Shanghai Renrui Recruitment Services, research and development, and operation of the Xiang Recruitment App	October 24, 2012	PRC	10,000,000	100% through the Modified Contractual Arrangements
Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司)	Flexible staffing and professional recruitment	December 23, 2011	PRC	10,000,000	100%
Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司)	Flexible staffing and professional recruitment	July 18, 2012	PRC	2,000,000	100%
Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司)	Flexible staffing and professional recruitment	August 10, 2012	PRC	50,000,000	100%
Chengdu Tianfu ^{(1), (2), (3)}	Investment holding ⁽⁴⁾	February 2, 2010	PRC	5,000,000	100% through the Modified Contractual Arrangements

Notes:

- (1) Mr. JG Zhang has invested in Chengdu Tianfu since its establishment in February 2010 but he has entrusted Mr. Zhang Mingchuan, an Independent Third Party, to hold his 80% equity interest in Chengdu Tianfu since its establishment until July 2011. During such period, Mr. Zhang Mingchuan exercised the rights associated with such equity interest in accordance with Mr. JG Zhang's instructions.
- (2) Mr. F Zhang has invested in Chengdu Tianfu since its establishment in February 2010 but he has entrusted Mr. Zhang Mingchuan, an Independent Third Party, to hold his 10% equity interest in Chengdu Tianfu between November 2010 and July 2011. During such period, Mr. Zhang Mingchuan exercised the rights associated with such equity interest in accordance with Mr. F Zhang's instructions.
- (3) Ms. JM Zhang has invested in Chengdu Tianfu since its establishment in February 2010 but she has entrusted Mr. Wu Jiancheng, the uncle of Ms. JM Zhang, to hold her 10% equity interest in Chengdu Tianfu between November 2010 and July 2011. During such period, Mr. Wu Jiancheng exercised the rights associated with such equity interest in accordance with Ms. JM Zhang's instructions.
- (4) Chengdu Tianfu engaged in flexible staffing services and professional recruitment services during the Track Record Period, and has become an investment holding company upon completion of the Reorganization.

Major Acquisitions and Disposals

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in “— Corporate Restructuring” in this section and conducted as part of the Reorganization, we did not conduct any major acquisitions, disposals or mergers.

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MAJOR SHAREHOLDING CHANGES

Incorporation and establishment

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on October 14, 2011 as the ultimate holding company of our Group. Ming Feng held one ordinary share in our Company as of October 14, 2011. Ming Feng was owned as to 80% by Mr. JG Zhang, 10% by Mr. F Zhang and 10% by Ms. JM Zhang as of October 14, 2011.

For further details of subsequent shareholding changes of our Company as part of the [REDACTED] Investments and Reorganization, please refer to “— [REDACTED] Investments” and “— Corporate Restructuring” in this section.

[REDACTED] Share Option Schemes

On March 12, 2019, we conditionally adopted the [REDACTED] Share Option Schemes. A summary of the principal terms and further details of the [REDACTED] Share Option Schemes are set forth in the section headed “Statutory and General Information — D. Share Option Schemes — 1. [REDACTED] Share Option Schemes” in Appendix IV to this document. Further details are also set forth in the section headed “Waivers and Exemptions from Strict Compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the [REDACTED] Share Option Schemes” in this document.

Acting In Concert Deed

On January 18, 2019, in preparation for the [REDACTED], the Founders executed an acting in concert deed, whereby they confirmed that since the time when they have contemporaneously become the legal and/or beneficial owners of shares or equity interests (as the case may be) in Ming Feng and any of the members of our Group, they have been and will continue to be acting in concert (as such term is defined in the Takeovers Code) with each other in respect of all major management matters, business decisions (including but not limited to financial and operational matters), and all matters being the subject matters of any shareholders’ resolution of such companies. As such, the Founders, Ming Feng, Wu Fu Min Feng and Lin Feng together constitute a group of Controlling Shareholders within the meaning of the Listing Rules.

[REDACTED] INVESTMENTS

Overview

Our Company underwent four rounds of [REDACTED] Investments:

Series A Investment

- (a) On March 23, 2012, LC Fund V, LC Parallel Fund V, Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders entered into a preferred share purchase agreement (as supplemented by a supplemental agreement entered into between, among others, LC Fund V, LC Parallel Fund V, Macquarie, VMS, North Sea, Ming Feng, the Founders, our Company, Renrui (HK), Chengdu Qicheng WFOE and Chengdu Tianfu, on March 12, 2019 in relation to Series A Investment, Series B1 Investment, Series B2 Investment and Series D1 and D2 Investment (the “**Series A, B and D Supplemental Agreement**”)), pursuant to

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

which LC Fund V and LC Parallel Fund V subscribed for an aggregate of 13,500,000 Series A Preferred Shares for a total consideration of US\$3,000,000. Such 13,500,000 Series A Preferred Shares were subsequently subdivided into 27,000,000 Series A Preferred Shares on August 1, 2012.

Series B1 Investment

- (b) On February 27, 2014, Macquarie, Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders entered into a share subscription agreement (as supplemented by the Series A, B and D Supplemental Agreement), pursuant to which Macquarie subscribed for an aggregate of 13,437,500 Series B1 Preferred Shares for a total consideration of US\$4,300,000.
- (c) On July 16, 2018, our Company, Macquarie and VMS entered into a share purchase agreement (as supplemented by the Series A, B and D Supplemental Agreement), pursuant to which Macquarie transferred 8,814,464 Series B1 Preferred Shares to VMS at a total consideration of US\$7,500,000 (the “**Series B1 Transfer**”).

Series B2 Investment

- (d) On March 24, 2015, our Company, Ming Feng, the Founders, Macquarie, LC Fund V and LC Parallel Fund V entered into a convertible note purchase agreement (as supplemented by the Series A, B and D Supplemental Agreement), pursuant to which Macquarie, LC Fund V and LC Parallel Fund V subscribed for the convertible promissory notes of our Company in an aggregate principal amount of US\$500,000, US\$928,459 and US\$71,541, respectively. The conversion of these convertible promissory notes into 1,125,247, 2,089,492 and 161,003 Series B2 Preferred Shares by Macquarie, LC Fund V and LC Parallel Fund V, respectively, was completed on September 28, 2015.

Series C Investment

- (e) On September 28, 2015, Ma'anshan, Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders entered into a convertible loan investment agreement (as supplemented by a supplemental agreement entered into between Ma'anshan, Chengdu Tianfu, Chengdu Qicheng WFOE and the Founders on March 6, 2019 in relation to Series C Investment (the “**Series C Supplemental Agreement**”)) (the “**2015 Convertible Loan Investment Agreement**”), pursuant to which Ma'anshan provided a convertible loan in the principal amount of RMB30,000,000 at an interest rate of 10% per annum to Chengdu Tianfu (the “**First Convertible Loan**”). Ma'anshan was granted a right to convert such loan into the equity interests in our Company or Chengdu Tianfu pursuant to the 2015 Convertible Loan Investment Agreement.
- (f) On January 3, 2017, Ma'anshan, Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders entered into a convertible loan investment agreement (as supplemented by the Series C Supplemental Agreement) (the “**2017 Convertible Loan Investment Agreement**”), pursuant to which Ma'anshan provided a further convertible loan in the principal amount of RMB15,000,000 at an interest rate of 12% per annum to Chengdu Tianfu (the “**Second Convertible Loan**”). Ma'anshan was granted a right to convert such loan into the equity interests in our Company or Chengdu Tianfu pursuant to the 2017 Convertible Loan Investment Agreement.
- (g) On September 5, 2018, Ma'anshan, Chengdu Tianfu and the Founders entered into a convertible loan repayment agreement (as supplemented by the Series C Supplemental Agreement) (the “**Convertible Loan Repayment Agreement**”) which amended the repayment terms and obligations regarding the First Convertible Loan

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and the Second Convertible Loan as set out in the 2015 Convertible Loan Investment Agreement and the 2017 Convertible Loan Investment Agreement, respectively. No part of the First Convertible Loan or the Second Convertible Loan was converted by Ma’anshan into the equity interests in our Company or Chengdu Tianfu, and we have repaid to Ma’anshan the First Convertible Loan, the Second Convertible Loan and all accrued and unpaid interest under the Convertible Loan Repayment Agreement by December 2018. The conversion rights under the 2015 Convertible Loan Investment Agreement and the 2017 Convertible Loan Investment Agreement have ceased to have effect since the effective date of the Convertible Loan Repayment Agreement.

Series D1 and D2 Investment

- (h) On July 16, 2018, VMS, North Sea, Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu and the Founders entered into a share subscription agreement (as supplemented by the Series A, B and D Supplemental Agreement), pursuant to which our Company issued 7,933,017 Series D1 Preferred Shares and 2,833,220 Series D2 Preferred Shares to VMS and North Sea, respectively, at a total consideration of US\$7,000,000 and US\$2,500,000, respectively.

The basis of determination for the consideration for the [REDACTED] Investments was arm’s length negotiations between our Company and the respective [REDACTED] Investors after taking into consideration the timing of the investments and the status of our business performance and prospects at the relevant point of time.

On the [REDACTED], the Preferred Shares will be converted into the Shares on an one-to-one basis.

The below table is a summary of the capitalization of our Company as of the dates indicated:

Shareholder	Ordinary shares as of the date of this document	Series A Preferred Shares as of the date of this document	Series B1 Preferred Shares as of the date of this document	Series B2 Preferred Shares as of the date of this document	Series D1 Preferred Shares as of the date of this document	Series D2 Preferred Shares as of the date of this document	Ownership percentage as of the date of this document ⁽¹⁾	Ownership percentage immediately following the completion of the [REDACTED] ⁽²⁾
Ming Feng ⁽³⁾	46,368,000	—	—	—	—	—	41.20%	[REDACTED]%
Wu Fu Min Feng ⁽³⁾	5,796,000	—	—	—	—	—	5.15%	[REDACTED]%
Lin Feng ⁽³⁾	5,796,000	—	—	—	—	—	5.15%	[REDACTED]%
LC Parallel Fund V	—	1,834,948	—	161,003	—	—	1.77%	[REDACTED]%
LC Fund V	—	25,165,052	—	2,089,492	—	—	24.22%	[REDACTED]%
Macquarie	—	—	4,623,036	1,125,247	—	—	5.11%	[REDACTED]%
VMS	—	—	8,814,464	—	7,933,017	—	14.88%	[REDACTED]%
North Sea	—	—	—	—	—	2,833,220	2.52%	[REDACTED]%
Other public Shareholders	—	—	—	—	—	—	—	[REDACTED]%
Total	57,960,000	27,000,000	13,437,500	3,375,742	7,933,017	2,833,220	100%	100%

Notes:

- (1) Assuming that all Preferred Shares have been converted into an equal number of the Shares by way of re-designation as the Shares.

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- (2) (a) Assuming that all Preferred Shares will automatically be converted into an equal number of the Shares upon the [REDACTED] by way of re-designation as the Shares; and (b) Calculated after taking into account the Shares to be issued pursuant to the [REDACTED] (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). For the Shareholders' ownership percentages after taking into account the Shares to be issued pursuant to the exercise of all of the options granted under the [REDACTED] Share Option Schemes, please refer to “— Our Structure Immediately Following the Completion of the [REDACTED] (Taking into Account the Shares to be Issued Upon the Exercise of the Options Granted under the [REDACTED] Share Option Schemes)” in this section.
- (3) Each of Ming Feng, Wu Fu Min Feng and Lin Feng is not our [REDACTED] Investor. Please refer to “Statutory and General Information — A. Further Information about Our Group — 2. Changes in the share capital of our Company” in Appendix IV to this document for the changes in the Shares held by each of Ming Feng, Wu Fu Min Feng and Lin Feng.

Principal terms of the [REDACTED] Investments

Series A Investment, Series B1 Investment, Series B2 Investment and Series D1 and D2 Investment

The below table summarizes the principal terms of Series A Investment, Series B1 Investment, Series B2 Investment, and Series D1 and D2 Investment:

Name of [REDACTED] Investor	LC Fund V & LC Parallel Fund V	Macquarie	VMS	North Sea
Date of agreement	Series A: March 23, 2012 Series B2: March 24, 2015 ⁽¹⁾	Series B1: February 27, 2014 Series B2: March 24, 2015 ⁽²⁾	Series B1 Transfer ⁽³⁾ : July 16, 2018 Series D1: July 16, 2018	Series D2: July 16, 2018
Total consideration paid (US\$ million)	Series A: 3 Series B2: 1	Series B1: 4.3 Series B2: 0.5	Series B1 Transfer: 7.5 ⁽⁴⁾ Series D1: 7	Series D2: 2.5
Date on which consideration was fully settled	Series A: April 20, 2012 Series B2: Between March 25 and 26, 2015	Series B1: March 3, 2014 Series B2: March 27, 2015	Series B1 Transfer: July 31, 2018 ⁽⁴⁾ Series D1: August 1, 2018	Series D2: Between August 15 and 23, 2018
Approximate cost per share paid	Series A: US\$0.11 ⁽⁵⁾ Series B2: US\$0.44	Series B1: US\$0.32 ⁽⁶⁾ Series B2: US\$0.44	Series B1 Transfer: US\$0.85 ⁽⁴⁾ Series D1: US\$0.88	Series D2: US\$0.88
Discount to the [REDACTED] ⁽⁷⁾	Series A: [REDACTED]% Series B2: [REDACTED]%	Series B1: [REDACTED]% Series B2: [REDACTED]%	Series B1 Transfer: [REDACTED]% Series D1: [REDACTED]%	Series D2: [REDACTED]%
Conversion rights	<p>Optional conversion: At the option of and by way of written notice given by any of the Series A Preferred Shareholders, Series B Preferred Shareholders, and/or Series D Preferred Shareholders, a Preferred Share may be converted, without the payment of any additional consideration, into fully-paid Shares based on the then applicable conversion price.</p> <p>Automatic conversion: The Preferred Shares shall be automatically converted, without the payment of any additional consideration, into fully-paid Shares upon the consummation of a qualified initial [REDACTED] of Shares by our Company. Upon the [REDACTED], being the qualified initial [REDACTED] of Shares by our Company, the automatic conversion will apply to convert all the Preferred Shares into the Shares.</p> <p>Anti-dilution protection: The initial conversion ratio for each Preferred Share to ordinary share shall be 1:1. The conversion ratio shall be adjusted from time to time by events such as share subdivision, consolidation, capital reorganization or reclassification of ordinary shares, dividends, issuance of new shares. This adjustment is not linked to the [REDACTED] or the market capitalization of our Company upon the [REDACTED] and is in line with the requirements of the Stock Exchange.</p>			
Lock-up	The Shares held by the [REDACTED] Investors will be subject to a lock-up period of six months following the [REDACTED].			

Notes:

- (1) All of the outstanding principal amount of the convertible promissory notes with a principal sum of US\$928,459 and the accrued and unpaid interest thereon in the aggregate amount of US\$974,881.95

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have been fully converted into 2,089,492 Series B2 Preferred Shares, which were allotted to LC Fund V on September 28, 2015. All of the outstanding principal amount of the convertible promissory notes with a principal sum of US\$71,541 and the accrued and unpaid interest thereon in the aggregate amount of US\$75,118.05 have been fully converted into 161,003 Series B2 Preferred Shares, which were allotted to LC Parallel Fund V on September 28, 2015. Further details are set out in “— [REDACTED] Investments — Overview — Series B2 Investment” in this section.

- (2) All of the outstanding principal amount of the convertible promissory notes with a principal sum of US\$500,000 and the accrued and unpaid interest thereon in the aggregate amount of US\$525,000 have been fully converted into 1,125,247 Series B2 Preferred Shares, which were allotted to Macquarie on September 28, 2015. Further details are set out in “— [REDACTED] Investments — Overview — Series B1 Investment” in this section.
- (3) This was a transfer of 8,814,464 Series B1 Preferred Shares from Macquarie to VMS. Further details are set out in “— [REDACTED] Investments — Overview — Series B1 Investment” in this section.
- (4) The consideration of US\$7.5 million was settled by VMS to Macquarie for the transfer of 8,814,464 Series B1 Preferred Shares from Macquarie to VMS. Our Company did not receive any proceeds from this transaction.
- (5) The cost is calculated after taking into account the subdivision of the Series A Preferred Shares on August 1, 2012, after which the number of the Series A Preferred Shares was increased from 13,500,000 with a par value of US\$0.0001 each to 27,000,000 with a par value of US\$0.00005 each.
- (6) The cost is calculated based on 13,437,500 Preferred Shares, which is the number of Series B1 Preferred Shares held by Macquarie prior to the Series B1 Transfer, at the original subscription price of US\$4,300,000.
- (7) Assuming the [REDACTED] is fixed at HK\$[REDACTED], being the mid-point of the indicative [REDACTED] range, based on the expected issuance of [REDACTED] Shares immediately following the completion of the [REDACTED] (including completion of the conversion of the Preferred Shares into the Shares) and assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme. For the purpose of illustration in this table only, the conversion of US\$ into HK\$ is based on the exchange rate of US\$1.00 to HK\$7.8.

Use of [REDACTED] Investments [REDACTED] and Strategic Benefits of [REDACTED] Investments to our Company

We utilized the [REDACTED] from the [REDACTED] Investments for research and development of our recruitment platform and general working capital. As of the Latest Practicable Date, all of the net [REDACTED] from the [REDACTED] Investments (excluding Series C Investment, the loan amount of which has been fully repaid) have been utilized.

At the time of the [REDACTED] Investments, our Directors were of the view that in addition to providing working capital and advice for our continued growth, our Company could also benefit from the [REDACTED] Investors’ commitment to our Company as their investment demonstrates their confidence in our Group and serves as an endorsement of our Group’s performance, strength and prospects for our clients and suppliers.

Special rights of the [REDACTED] Investors

In addition to the terms described above, a shareholders agreement (the “**2018 Shareholders Agreement**”), as supplemented by the Series A, B and D Supplemental Agreement, was entered into between, among others, Ming Feng, Macquarie, LC Fund V, LC Parallel Fund V, VMS, North Sea, the Founders, our Company and Renrui (HK) on July 16, 2018, pursuant to which certain shareholder rights were agreed among the parties.

The shareholder rights granted under the 2018 Shareholders Agreement would automatically terminate on, inter alia, the occurrence of a qualified [REDACTED], meaning a firm [REDACTED] by our Company of its ordinary shares on the Stock Exchange, NASDAQ, New York Stock Exchange or on a recognized securities exchange in another jurisdiction as may be agreed by our Company and the then shareholders (i) with the net [REDACTED] to our Company of at least US\$50,000,000 (excluding the [REDACTED] discounts, selling commissions and [REDACTED] expenses), (ii) which reflects a [REDACTED] valuation of our Company of at least US\$350,000,000 and (iii) in which the Shares held by LC Fund V, LC Parallel Fund V, Macquarie, VMS and North Sea can gain full liquidity after the expiration of any lock-up period.

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As confirmed by each of the [REDACTED] Investors pursuant to our Shareholders’ resolutions passed on [●] 2019, the details of which are set out in the section headed “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of our Shareholders passed on [●], 2019” in Appendix IV to this document, the [REDACTED] constitutes a qualified [REDACTED], which will terminate the shareholder rights granted under the 2018 Shareholders Agreement. No special rights granted to the [REDACTED] Investors will survive after the [REDACTED].

Public float

Each of LC Fund V and LC Parallel Fund V will hold approximately [REDACTED]% and [REDACTED]% shareholding interest in our Company immediately following the completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). LC Fund V will therefore be a substantial shareholder of our Company upon the [REDACTED]. LC Fund V GP Limited is the general partner of each of LC Fund V and LC Parallel Fund V. Accordingly, the Shares held by LC Fund V and LC Parallel Fund V will not be considered as part of the public float for the purposes of Rule 8.24 of the Listing Rules.

VMS will hold approximately [REDACTED]% shareholding interest in our Company immediately following the completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). VMS will therefore be a substantial shareholder of our Company upon the [REDACTED], and the Shares it holds will accordingly not be considered as part of the public float for the purposes of Rule 8.24 of the Listing Rules.

Except as stated above, the Shares held by the other [REDACTED] Investors will constitute part of the public float for the purposes of Rule 8.24 of the Listing Rules.

Information on the [REDACTED] Investors

LC Fund V and LC Parallel Fund V

Each of LC Fund V and LC Parallel Fund V is an exempt limited partnership registered in the Cayman Islands on April 19, 2011 and May 23, 2011, respectively. The general partner of each of LC Fund V and LC Parallel Fund V is LC Fund V GP Limited, which is in turn 20% owned by Right Lane Limited (a wholly-owned subsidiary of Legend Holdings Corporation, the shares of which are listed on the Stock Exchange with stock code of 3396).

To the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as of the Latest Practicable Date:

(1) LC Fund V

- approximately 20.83% limited partner interests was held by Right Lane Limited (a wholly-owned subsidiary of Legend Holdings Corporation, the shares of which are listed on the Stock Exchange with stock code of 3396); and
- the rest of the limited partners were 55 foreign-established institutional investors including foreign retirement funds, endowments of universities in the United States, foundations of wealthy foreign families and large-scale foreign enterprises, each of whom held less than 5% limited partner interests. Based on our Company’s knowledge after due enquiry, these limited partners are Independent Third Parties.

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(2) LC Parallel Fund V

- its sole limited partner was a specialized investment fund domiciled in Luxembourg managing assets for institutions, family offices, funds and endowments.

The principal business activities of LC Fund V and LC Parallel Fund V are investments. Mr. Chen Rui is a Director nominated by LC Fund V and LC Parallel Fund V.

Macquarie

Macquarie is a proprietary limited liability company incorporated in Australia on May 4, 2001. It is an indirect wholly-owned subsidiary of Macquarie Group Limited (“**Macquarie Group**”) listed on the Australian Securities Exchange. Macquarie Group’s breadth of expertise covers asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. Macquarie Group acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to its clients. Macquarie Group has established leading market positions as a global specialist in a wide range of sectors, including resources and commodities, green energy, conventional energy, financial institutions, infrastructure and real estate, and has a deep knowledge of Asia-Pacific financial markets.

Ma’anshan

Ma’anshan is a limited partnership established in the PRC on April 2, 2015 which is owned as to 96% by Ms. Jiang Xiaoyu and 4% by Mr. Zhang Feilian. The principal business activities of Ma’anshan are equity investments, equity investments consultation, business consultation, and investment portfolio management. As confirmed by Mr. Zhang Feilian, he is the nephew of Mr. Zhang Wei, the shareholder of North Sea.

VMS

VMS is an exempt limited partnership registered in the Cayman Islands on May 1, 2018 with VMS Strategic Investment GP Limited as its general partner, which is in turn owned by VMS Investment Management Inc.. VMS Investment Management Inc. is the investment holding company for subsidiaries which are principally involved in project investment activities. To the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as of the Latest Practicable Date, the limited partners of VMS were Wise Horizon Holdings Limited, Tengman Limited, Manzone Enterprises Limited, Precise Asset Investments Limited and Champion Bliss International Limited, which owned approximately 32.68%, 26.14%, 19.61%, 19.61% and 1.96% limited partner interests in VMS, respectively, and the ultimate beneficial owners of each of the limited partners stated above are professional investors (as defined under the SFO) who are Independent Third Parties. Mr. Chow Siu Lui is a Director nominated by VMS.

North Sea

North Sea is a company incorporated in the BVI with limited liability on May 22, 2018, which is wholly owned by Mr. Zhang Wei. The principal business activities of North Sea are equity investment. As confirmed by Mr. Zhang Wei, he is the uncle of Mr. Zhang Feilian, who owns 4% interest in Ma’anshan.

Compliance with Stock Exchange guidance

On the basis that (i) the consideration for the [REDACTED] Investments was settled more than 28 clear days before the date of our first submission of the [REDACTED], to the Listing

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Department of the Stock Exchange in relation to the [REDACTED] and (ii) no material special rights granted to the [REDACTED] Investors will survive the [REDACTED], the Sole Sponsor has confirmed that the [REDACTED] Investments are in compliance with the Interim Guidance on [REDACTED] Investments HKEx-GL29-12 issued by the Stock Exchange on October 13, 2010, as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

CORPORATE RESTRUCTURING

In preparation for the [REDACTED] and in order to streamline our corporate structure, we underwent and conducted the following key steps as part of our Reorganization before the [REDACTED]:

1. Reorganization of the Shares held by the Founders

On January 4, 2019, Wu Fu Min Feng was incorporated in the BVI as a limited liability company and is wholly owned by Mr. F Zhang. On January 7, 2019, Lin Feng was incorporated in the BVI as a limited liability company and is wholly owned by Ms. JM Zhang.

On February 20, 2019, Ming Feng repurchased from each of Ms. JM Zhang and Mr. F Zhang 1,000 ordinary shares in Ming Feng registered in their respective names, constituting 10% of the issued share capital of Ming Feng respectively, at a repurchase price of US\$1,000 each.

On March 6, 2019, our Company repurchased 11,592,000 Shares from Ming Feng at a repurchase price of US\$579.60. On the same day, our Company issued 5,796,000 Shares and 5,796,000 Shares to Wu Fu Min Feng and Lin Feng, respectively, and each at a subscription price of US\$289.8.

Immediately prior to the completion of this step, the Founders through Ming Feng held an aggregate of approximately 51.5% of the issued share capital of our Company (assuming all Preferred Shares are converted into Shares on an one-to-one basis). Immediately following the completion of this step, Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, through Ming Feng, Wu Fu Min Feng and Lin Feng, respectively, held approximately 41.20%, 5.15% and 5.15% of the issued share capital of our Company (assuming all Preferred Shares are converted into Shares on an one-to-one basis), respectively.

The Founders also executed an acting in concert deed on January 18, 2019. Further details are set out in “— Major Shareholding Changes — Acting in Concert Deed” in this section.

2. Reorganization in relation to the use of the contractual arrangements by our Group

Immediately prior to the completion of this step, our Company exercised control over the business operation of all of our PRC subsidiaries through the Old Contractual Arrangements. In order to ensure that the use of the contractual arrangements by our Group complies with the Stock Exchange’s listing decision HKEx-LD43-3, we conducted the following intra-group corporate and business restructuring.

(a) Consolidation of our non-restricted and/or non-prohibited businesses under Xinan Renrui

On December 13, 2018, Shanghai Renrui transferred the entire equity interest in Hangzhou Renrui Human Resources Services Co., Ltd. (杭州人瑞人力資源服務有限公司),

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which provides (i) flexible staffing services which are not subject to the Client-imposed Licence Requirement, (ii) Non-Shanghai Renrui Recruitment Services and (iii) labor dispatch services, to Xinan Renrui for a consideration of RMB2,000,000, which was determined with reference to the paid-in capital of Hangzhou Renrui Human Resources Services Co., Ltd. (杭州人瑞人力資源服務有限公司).

Between February and March, 2019, Chengdu Tianfu transferred its entire equity interests in our Majority PRC Subsidiaries (which operate businesses that are not subject to any foreign investment restrictions) to Xinan Renrui for consideration determined with reference to the paid-in capital of the relevant Majority PRC Subsidiaries. As a result, Xinan Renrui has become the holding company of our Majority PRC Subsidiaries.

As of the Latest Practicable Date, Chengdu Tianfu and its subsidiaries [had] transferred all of their (i) flexible staffing services which are not subject to the Client-imposed Licence Requirement, (ii) Non-Shanghai Renrui Recruitment Services, (iii) corporate training services, (iv) labor dispatch services, (v) information verification BPO services and (vi) questionnaire survey BPO services, to certain subsidiaries of our Company, by, among others, (a) terminating the relevant client contracts and the corresponding employee contracts and having Xinan Renrui and/or its subsidiaries signing new contracts with the relevant clients and employees or (b) assigning the rights and obligations under the relevant client contracts and the corresponding employee contracts to Xinan Renrui and/or its subsidiaries.

Immediately following the completion of this step, all of our non-restricted and/or non-prohibited businesses (except for the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement) have been consolidated under Xinan Renrui.

(b) Restructuring of Xinan Renrui

On February 28, 2019, Tournesol Human Resources Limited, which is wholly owned by Sunflower Human Resources Limited and which in turn is wholly owned by a limited partner of VMS, agreed to make a capital contribution of RMB105,300 in cash to the registered capital of Xinan Renrui, which was determined as a result of arm's length negotiation between the parties. Upon completion of such capital contribution, Xinan Renrui became a sino-foreign joint venture and was 95% held by Chengdu Tianfu and 5% held by Tournesol Human Resources Limited. Tournesol Human Resources Limited is a Hong Kong incorporated company with a licence to operate an employment agency issued by the Commissioner for Labour in Hong Kong.

On March 27, 2019, Renrui (HK), a Hong Kong incorporated company with a licence to operate an employment agency issued by the Commissioner for Labour in Hong Kong, acquired 95% equity interest in Xinan Renrui from Chengdu Tianfu for a consideration of RMB2,000,000, which was determined with reference to the paid-in capital of Xinan Renrui.

On April 8, 2019, our Company acquired from the above limited partner of VMS all the issued share capital of Sunflower Human Resources Limited for a cash consideration of US\$45,000, which was determined as a result of arm's length negotiations between the parties.

As a result of the above, Xinan Renrui became an indirect wholly-owned subsidiary of our Company.

(c) Consolidation of (i) Shanghai Renrui Recruitment Services, (ii) Client Service Representative BPO Services and (iii) Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement under our Consolidated Affiliated Entities

Due to the PRC laws and regulatory restriction on foreign ownership in the Shanghai Renrui Recruitment Services and the Client Service Representative BPO Services and restrictions on foreign investors to own interests in entities holding the VATS Licences under the Old Negative List, the above services were consolidated under our Consolidated Affiliated Entities.

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On January 2, 2019, Chengdu Tianfu acquired from Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司) the entire equity interest in Liaoning Renrui, which provides the Client Service Representative BPO Services, for a consideration of RMB10,000,000, which was determined with reference to the paid-in capital of Liaoning Renrui.

Upon the completion of this step, Chengdu Tianfu, which continued to be owned by Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang as to 80%, 10% and 10%, respectively, held 100% equity interests in, among others, (i) Shanghai Renrui, which conducts the Shanghai Renrui Recruitment Services and holds a VATS Licence, (ii) Liaoning Renrui, which conducts the Client Service Representative BPO Services and holds a VATS Call Center Licence, and (iii) Beijing Ruilian, which conducts the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement (the provision of which is not subject to any foreign investment restrictions but such business has been consolidated under our Consolidated Affiliated Entities due to the reasons as set out in the section headed “Contractual Arrangements - Restrictions on foreign ownership in Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement” in this document) and holds a VATS Call Center Licence.

(d) Entry into the Modified Contractual Arrangements to replace the Old Contractual Arrangements

On April 1, 2019, Chengdu Qicheng WFOE entered into the Modified Contractual Arrangements with, among others, Chengdu Tianfu and the Registered Shareholders to replace the Old Contractual Arrangements pursuant to which Chengdu Qicheng WFOE exercises control over the operations, and enjoy substantially all the economic benefits, of our Consolidated Affiliated Entities.

For further details on the Modified Contractual Arrangements, see the section headed “Contractual Arrangements” in this document.

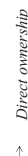
3. Deregistration of non-core vocational skills training school business

Chengdu Renrui Labour Vocational Skills Training School (成都市人瑞勞動職業技能培訓學校) (“**Chengdu Training School**”) was a vocational training school established in the PRC on September 3, 2010 with a start-up capital of RMB10,000. Prior to its application for deregistration, its school sponsor’s interest was owned by Chengdu Tianfu. The business carried out by Chengdu Training School was not part of our core business, and Chengdu Training School had ceased most of its business operations since 2012. We therefore consider Chengdu Training School not material to our business and have decided to deregister it as part of the Reorganization. As of the Latest Practicable Date, the process of the deregistration of Chengdu Training School is continuing.

THE NEW NEGATIVE LIST

On June 30, 2019, the MOFCOM and the National Development and Reform Commission issued the New Negative List, which took effect on July 30, 2019 and superseded the Old Negative List. In response to the New Negative List, we have established Liaoning Corporate on September 10, 2019, and Liaoning Corporate has submitted the VATS Call Center Licence Application to the MIIT on September 23, 2019. As of the Latest Practicable Date, Liaoning Corporate’s VATS Call Center Licence Application is still being reviewed by the MIIT. Please refer to the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document for further details.

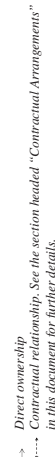
The following diagram illustrates the corporate and shareholding structure of our Group immediately prior to the completion of the Reorganization (assuming all Preferred Shares are converted into Shares on a one-to-one basis):



Direct ownership
-----> Contractual relationship. See the section headed "Contractual Arrangements" in this document for further details.

- (1) The Founders entered into an Acting In Concert Deed on January 18, 2019. See “— Major Shareholding Changes — Acting In Concert Deed” in this section for details.
- (2) The general partner of each of LC Fund V and LC Parallel Fund V is LC Fund V GP Limited, which is in turn 20% owned by Right Lane Limited (a wholly-owned subsidiary of Legend Holdings Corporation, the shares of which are listed on the Stock Exchange with stock code of 3396).
- (3) Chengdu Training School is in the process of deregistration, the details of which are set out in “— 3. Deregistration of non-core vocational skills training school business” in this section.

The following diagram illustrates the corporate and shareholding structure of our Group after the completion of the Reorganization and immediately prior to the completion of the [REDACTED] (assuming (i) all Preferred Shares are converted into Shares on an one-to-one basis, (ii) no exercise of the [REDACTED], (iii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iv) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme):



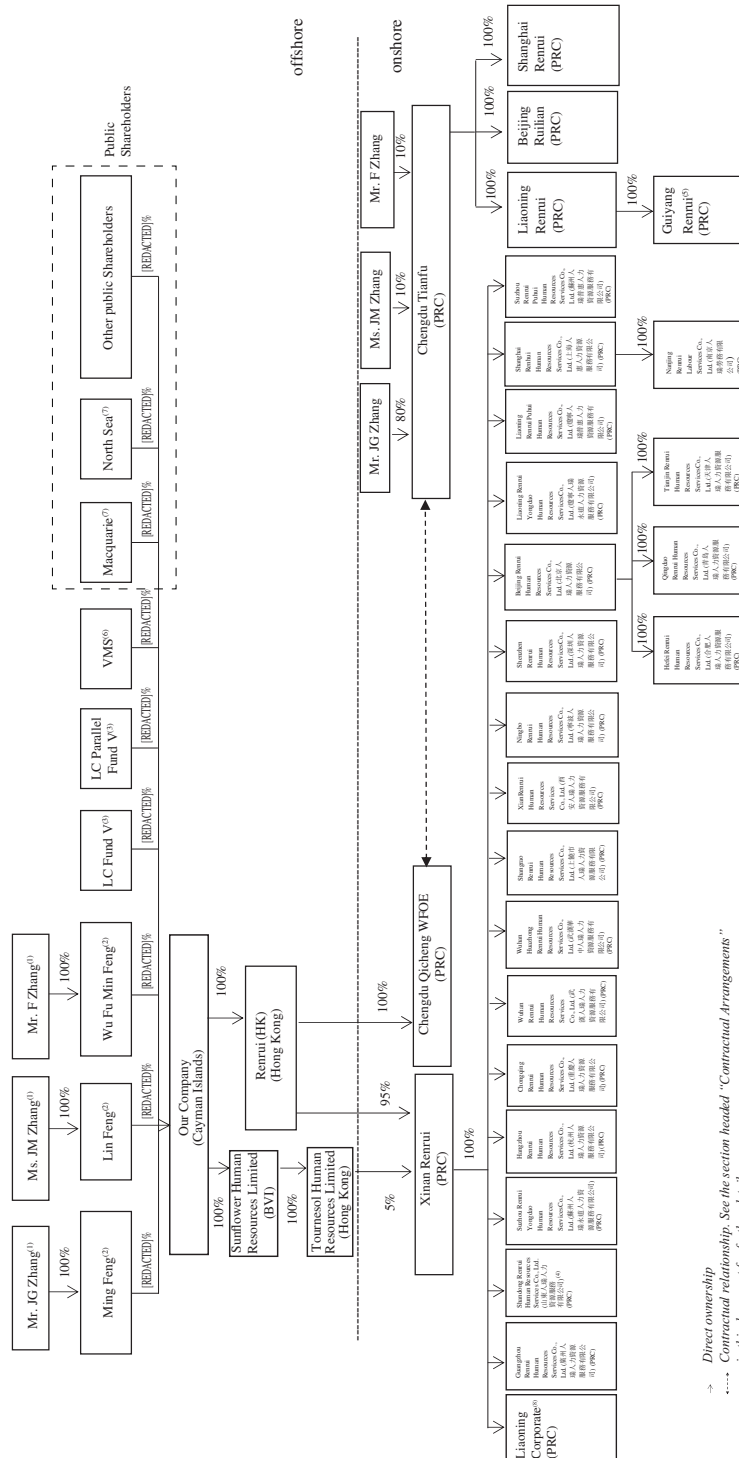
(1) Please refer to note (1) as set forth in “— Our Structure Immediately Prior to the Completion of the Reorganization” in this section.

- Liaoning Corporate is a limited liability company incorporated in the PRC on September 10, 2019 and has submitted the application for the VATS Call Center Licence to the MIT on September 23, 2019. As of the Latest Practicable Date, Liaoning Corporate's VATS Call Center Licence Application is still being reviewed by the MIT. Please refer to the section headed "Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List" in this document for further details.

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OUR STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Group immediately following the completion of the [REDACTED] (assuming (i) all Preferred Shares are converted into Shares on a one-to-one basis, (ii) no exercise of the [REDACTED], (iii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iv) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme):



↑ *Direct ownership*
Contractual relationship. See the section headed "Contractual Arrangements" in this document for further details.

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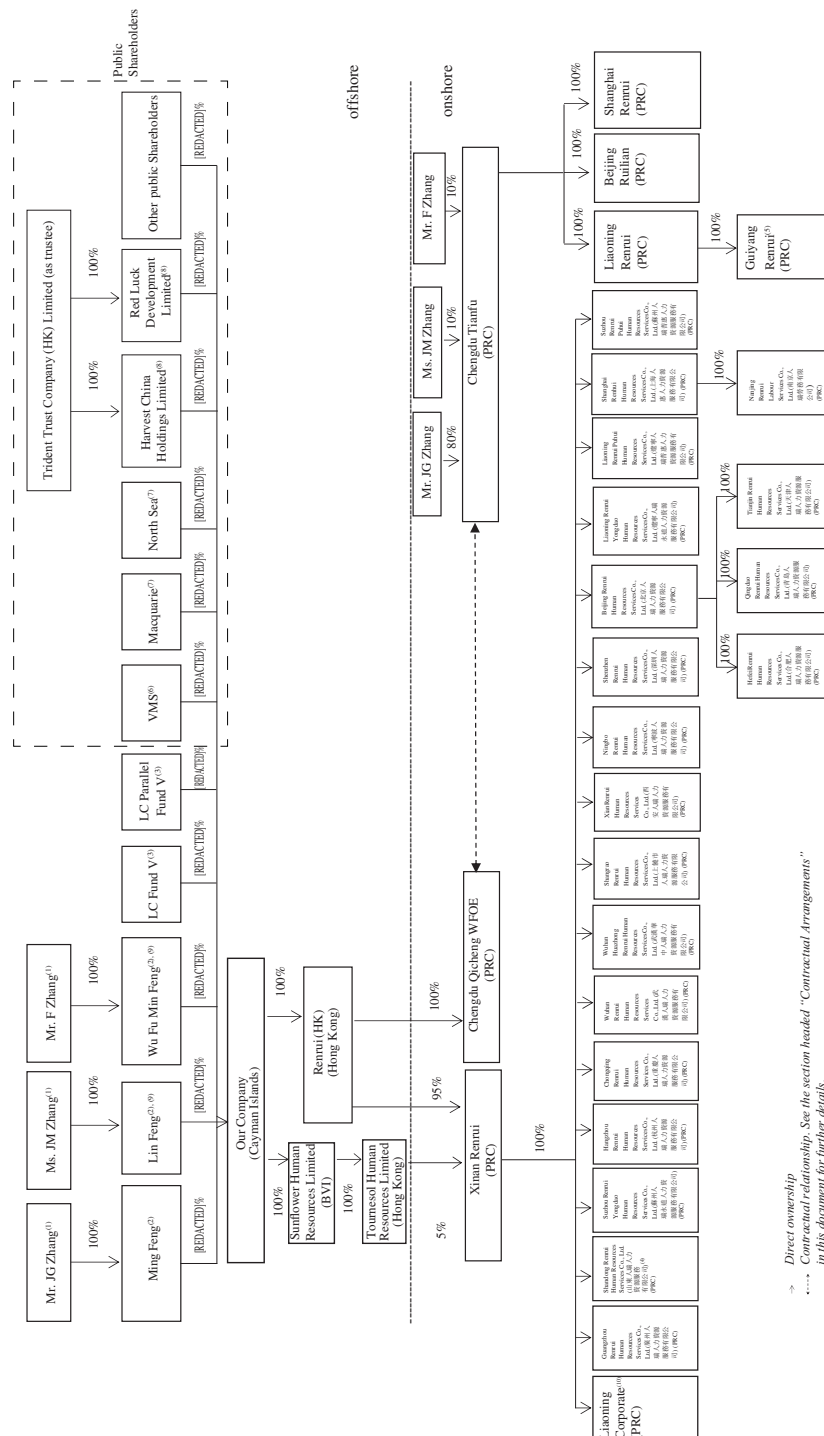
Notes:

- (1) Please refer to note (1) as set forth in “— Our Structure Immediately Prior to the Completion of the Reorganization” in this section.
- (2) The Shares held by Ming Feng, Lin Feng and Wu Fu Min Feng will not be considered as part of the public float for the purposes of Rule 8.24 of the Listing Rules.
- (3) LC Fund V will be a substantial shareholder of our Company upon the [REDACTED]. LC Fund V GP Limited is the general partner of each of LC Fund V and LC Parallel Fund V. Accordingly, the Shares held by LC Fund V and LC Parallel Fund V will not be considered as part of the public float for the purposes of Rule 8.24 of the Listing Rules.
- (4) Please refer to note (3) as set forth in “— Our Structure After the Completion of the Reorganization and Immediately Prior to the Completion of the [REDACTED]” in this section.
- (5) Please refer to note (4) as set forth in “— Our Structure After the Completion of the Reorganization and Immediately Prior to the Completion of the [REDACTED]” in this section.
- (6) VMS will be a substantial shareholder of our Company upon the [REDACTED], and the Shares it holds will accordingly not be considered as part of the public float for the purposes of Rule 8.24 of the Listing Rules.
- (7) The Shares held by Macquarie and North Sea will constitute part of the public float for the purposes of Rule 8.24 of the Listing Rules.
- (8) Please refer to note (5) as set forth in “— Our Structure After the Completion of the Reorganization and Immediately Prior to the Completion of the [REDACTED]” in this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE [REDACTED] (TAKING INTO ACCOUNT THE SHARES TO BE ISSUED UPON THE EXERCISE OF THE OPTIONS GRANTED UNDER THE [REDACTED] SHARE OPTION SCHEMES)

The following diagram illustrates the corporate and shareholding structure of our Group immediately following the completion of the [REDACTED], taking into account the maximum number of Shares to be issued upon the exercise of the options that may be granted under the [REDACTED] Share Option Schemes in full (assuming (i) all of such Shares will be held indirectly by Trident Trust Company (HK) Limited (as trustee), (ii) all Preferred Shares are converted into Shares on a one-to-one basis, (iii) no exercise of the [REDACTED], (iv) no exercise of the options which may be granted under the [REDACTED] Share Option Scheme and (v) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme):



➤ *Direct ownership*
Contractual relationship. See the section headed "Contractual Arrangements"
in this document for further details.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) Please refer to note (1) as set forth in “— Our Structure Immediately Prior to the Completion of the Reorganization” in this section.
- (2) Please refer to note (2) as set forth in “— Our Structure Immediately Following the Completion of the [REDACTED]” in this section.
- (3) Please refer to note (3) as set forth in “— Our Structure Immediately Following the Completion of the [REDACTED]” in this section.
- (4) Please refer to note (3) as set forth in “— Our Structure After the Completion of the Reorganization and Immediately Prior to the Completion of the [REDACTED]” in this section.
- (5) Please refer to note (4) as set forth in “— Our Structure After the Completion of the Reorganization and Immediately Prior to the Completion of the [REDACTED]” in this section.
- (6) The Shares held by VMS will constitute part of the public float for the purposes of Rule 8.24 of the Listing Rules in this scenario.
- (7) Please refer to note (7) as set forth in “— Our Structure Immediately Following the Completion of the [REDACTED]” in this section.
- (8) On [●], 2019, our Company entered into two trust deeds with Trident Trust Company (HK) Limited (the “Trustee”), an Independent Third Party, pursuant to which the Trustee has agreed to act as the trustee to administer each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS, and to hold or deal with, through Harvest China Holdings Limited and Red Luck Development Limited, the Shares to be issued upon the exercise of the options which have been granted under each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS. This chart assumes that (i) the maximum number of the options that may be granted under each of the Mid-senior Level Management [REDACTED] SOS and the Non-management Employee [REDACTED] SOS has been utilized, (ii) all of the options under each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS have been exercised in full and (iii) all such Shares allotted are held by Harvest China Holdings Limited and Red Luck Development Limited. The Shares held by Harvest China Holdings Limited and Red Luck Development Limited, both of which are wholly owned by the Trustee, will constitute part of the public float for the purposes of Rule 8.24 of the Listing Rules.
- (9) Assuming the full exercise of the options granted to Ms. JM Zhang and Mr. F Zhang under the Mid-senior Level Management [REDACTED] SOS, and the Shares so allotted are held by Lin Feng and Wu Fu Min Feng, respectively.
- (10) Please refer to note (5) as set forth in “— Our Structure After the Completion of the Reorganization and Immediately Prior to the Completion of the [REDACTED]” in this section.

PRC REGULATORY REQUIREMENTS

Our PRC Legal Advisor is of the view that the Reorganization conducted in the PRC has complied with all applicable PRC laws and regulations in all material aspects. Our Directors confirmed that all transfers of equity interests of the PRC companies in relation to the Reorganization have been completed.

According to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (“**M&A Rules**”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, SAMR and the SAFE on August, 2006, effective as of September 8, 2006 and amended on June 22, 2009, in the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person, the merger and acquisition applications shall be submitted to the MOFCOM for approval and any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed. In addition, the M&A Rules purport, among other things, to require that offshore special purpose vehicles, or SPVs, that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

According to the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), the merger and acquisition of domestic non-foreign-invested enterprises by foreign investors shall, if not involving the Special Administrative Measures (Negative List) for the Access of Foreign Investment (外商投資准入特別管理措施(負面清單)) (as amended from time to time) and affiliated mergers and acquisitions, be subject to the record filing measures.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As advised by our PRC Legal Advisor, the 95% equity interest transfer in Xinan Renrui from Chengdu Tianfu to Renrui (HK) did not constitute an equity or asset merger or acquisition under the M&A Rules because Xinan Renrui had become a sino-foreign joint venture from a domestic enterprise when the said transfer took place. As such, such equity interest transfer and the Reorganization should not be subject to governmental approvals in accordance with the M&A Rules, and no CSRC approval is required for the [REDACTED]. Furthermore, the said equity interest transfer has been filed with competent PRC governmental authorities in accordance with applicable PRC laws and regulations such as the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》).

SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”), promulgated by SAFE and which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”) which became effective on July 14, 2014, PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with SAFE when there is a change to the basic information of the SPV, such as changes of a PRC resident individual shareholder, the name or operating period of the SPV, or when there is a significant change to the SPV, such as changes of the PRC individual resident’s increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger, division of the SPV. Failure to comply with the registration procedures set out in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisor, the Founders have completed their registration under the SAFE Circular 37 by February 2019.

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BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

We provide one-stop HR solutions comprising flexible staffing services, professional recruitment services and other HR solutions including BPO services, corporate training services, labor dispatch services and other miscellaneous services in the PRC.

According to the applicable PRC laws and regulations, value-added telecommunication services (增值電信業務) (the “**VATS**”) are subject to foreign investment restrictions, and there are restrictions on foreign investors in owning interests in entities holding the value-added telecommunication services licence (增值電信業務經營許可證) (the “**VATS Licence**”) in the PRC. In particular, based on the Old Negative List and the MIIT Consultations and as advised by our PRC Legal Advisor, (i) the provision of the Shanghai Renrui Recruitment Services through the operation of the Xiang Recruitment App which is connected to the Xiang Recruitment Platform involves the provision of commercial Internet information services to online users, which is a type of VATS, and (ii) the provision of the Client Service Representative BPO Services involves the provision of call center services, which is another type of VATS (the “**Relevant Businesses**”).

Furthermore, there is no clear guidance or interpretation on the applicable qualification requirements. Therefore, we could not hold any equity interest in Chengdu Tianfu (certain wholly-owned subsidiaries of which hold the VATS Licences) and/or its wholly-owned subsidiaries, including Shanghai Renrui, Liaoning Renrui and Beijing Ruilian. Shanghai Renrui, Liaoning Renrui and Beijing Ruilian currently operate the Relevant Businesses and/or hold the VATS Licences.

In order to maintain effective control over all of our PRC subsidiaries, Chengdu Qicheng WFOE had entered into a series of contractual arrangements with, among others, Chengdu Tianfu, its subsidiaries, and the Registered Shareholders (the “**Old Contractual Arrangements**”), which allowed our Company to exercise control over the business operation of all of our PRC subsidiaries and to enjoy all the economic interests derived therefrom. In order to narrowly tailor our VIE structure in accordance with the Stock Exchange’s listing decision HKEx-LD43-3 as part of the Reorganization, we have entered into a modified series of contractual arrangements through Chengdu Qicheng WFOE with, among others, Chengdu Tianfu, its subsidiaries, and the Registered Shareholders, i.e. the Modified Contractual Arrangements, on April 1, 2019 which have modified and superseded the Old Contractual Arrangements. Under the Modified Contractual Arrangements, Chengdu Qicheng WFOE has acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities, and has become entitled to all the economic benefits derived from their operations. The amount of revenue our Group generated from our Consolidated Affiliated Entities was approximately RMB103.9 million, RMB113.3 million, RMB144.5 million and RMB 51.0 million, which accounted for approximately 27.6%, 14.6%, 8.9% and 4.7% of our total revenue, for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, respectively.

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We believe that the Modified Contractual Arrangements are narrowly tailored as they are principally used to enable our Group to conduct the Relevant Businesses that are subject to foreign investment restrictions in the PRC and/or hold the VATS Licences based on the Old Negative List and the MIIT Consultations. Our Directors believe that the Modified Contractual Arrangements are fair and reasonable because: (i) the Modified Contractual Arrangements were freely negotiated and entered into between on the one hand Chengdu Qicheng WFOE, which is an indirect wholly-owned subsidiary of our Company established in the PRC, and, on the other hand and among others, Chengdu Tianfu, its subsidiaries, and the Registered Shareholders, (ii) by entering into the Exclusive Services Agreement with Chengdu Qicheng WFOE, the Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies whose shares are listed on the Stock Exchange use similar arrangements to accomplish the same purpose.

Subsequently, on June 30, 2019, the MOFCOM and the National Development and Reform Commission issued the New Negative List, which took effect on July 30, 2019 and superseded the Old Negative List. Please refer to “ — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this section below for further details on subsequent development as a result of the New Negative List.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Investment activities in the PRC by foreign investors are principally governed by the Catalogue and the New Negative List. Pursuant to the Catalogue and the New Negative List, industries listed therein are divided into two categories: encouraged industries, and industries within the catalogue of special administrative measures. As updated and clarified by the New Negative List, industries within the catalogue of special administrative measures are further divided into two sub-categories: “restricted” industries and “prohibited” industries. Industries not listed in the Catalogue or the New Negative List are generally deemed as constituting a fourth “permitted” category.

Through the Consolidated Affiliated Entities, our Company operates (i) the Shanghai Renrui Recruitment Services, (ii) the Client Service Representative BPO Services and (iii) the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement based on the Old Negative List and the MIIT Consultations.

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Restrictions on foreign ownership in Flexible Staffing Services, Non-Shanghai Renrui Recruitment Services, Corporate Training Services, Labor Dispatch Services, Information Verification BPO Services and Questionnaire Survey BPO Services

Foreign ownership restrictions applicable to Flexible Staffing Services, Corporate Training Services, Labor Dispatch Services, Information Verification BPO Services and Questionnaire Survey BPO Services

As advised by our PRC Legal Advisor, none of the flexible staffing services, corporate training services, labor dispatch services, information verification BPO services and questionnaire survey BPO services is listed in the Catalogue or the New Negative List, and are therefore deemed as falling under the “permitted” category.

In particular, the flexible staffing services, labor dispatch services, information verification BPO services and questionnaire survey BPO services are conducted by our Group through recruiting and entering into employment contracts with the contract employees as our own employees to provide services as agreed with our clients. On the other hand, according to the applicable PRC laws and regulations, talent intermediary services organizations refer to organizations which provide talent intermediary services to clients and individuals, and the clients would enter into employment contracts directly with the suitable individuals as the clients’ employees. Such talent intermediary services are subject to foreign investment restrictions under PRC law, the details of which are set out in the paragraph headed “Foreign ownership restrictions applicable to Non-Shanghai Renrui Recruitment Services” below. According to our PRC Legal Advisor, on the basis of the above, the provision of flexible staffing services, labor dispatch services, information verification BPO services and questionnaire survey BPO services does not constitute the provision of talent intermediary services.

Foreign ownership restrictions applicable to Non-Shanghai Renrui Recruitment Services

As advised by our PRC Legal Advisor, the provision of the Non-Shanghai Renrui Recruitment Services is not listed in the Catalogue or the New Negative List, and is therefore deemed as falling under the “permitted” category. However, according to the Provisions on Talent Market Administration (《人才市場管理規定》) and the Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies (《中外合資人才中介機構管理暫行規定》), both last amended by the MOHRSS on April 30, 2015, in the case of foreign investors engaged in talent intermediary services or other related services intending to launch talent intermediary services in the PRC, they are required to set up joint ventures with Chinese talent intermediary service agencies. Foreign investors are also required to be foreign companies, corporations and other economic organizations providing talent intermediary services for at least three years and each investor of the relevant Sino-foreign joint venture should possess proven reputation and comply with requirements such as staff qualifications and system infrastructure (the “**three-year Industry Experience**

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Requirement). Pursuant to these regulations, the Chinese talent intermediary service agencies shall hold at least 51% of the equity interests in the relevant Sino-foreign talent intermediary services joint ventures, which means that foreign investors generally shall not hold more than 49% of the equity interests in such joint ventures.

Notwithstanding the above, pursuant to the Supplementary Provisions on the Interim Administrative Provisions for Sino-Foreign Equity Joint Venture Talent Intermediary Service Agencies (關於《中外合資人才中介機構管理暫行規定》的補充規定) and the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplemental agreement(s), a qualified Hong Kong company could directly or indirectly hold 100% equity interest in PRC companies providing talent intermediary services. However, there is no explicit guidance on the applicability of the three-year Industry Experience Requirement in respect of such qualified Hong Kong company.

Based on a written confirmation issued by the Chengdu HRSS dated February 1, 2019 (the “**Chengdu HRSS Confirmation**”) and a verbal confirmation obtained from the MOHRSS on February 22, 2019 (the “**MOHRSS Confirmation**”), which are the competent authorities to give the relevant confirmations as advised by our PRC Legal Advisor, the following have been confirmed:

- (i) the provision of flexible staffing services, corporate training services, labor dispatch services, information verification BPO services and questionnaire survey BPO services is not subject to any foreign ownership restriction; and
- (ii) a Hong Kong company which holds a human resources qualification licence as granted by the relevant Hong Kong regulatory authority could directly or indirectly hold 100% equity interests in PRC companies providing the Non-Shanghai Renrui Recruitment Services. Furthermore, it is not necessary for the relevant Hong Kong company to meet the three-year Industry Experience Requirement.

For further details of the limitations on foreign ownership in PRC companies conducting talent intermediary services, and the applicable licensing and approval requirements under PRC laws and regulations, please see the section headed “Regulatory Overview — Regulations Relating to HR Services” in this document.

Reorganization

On the basis of the above, we have transferred all of our flexible staffing services which are not subject to the Client-imposed Licence Requirement, Non-Shanghai Renrui Recruitment Services, corporate training services, labor dispatch services, information verification BPO services and questionnaire survey BPO services, which were conducted through Chengdu Tianfu or its subsidiaries under a VIE structure prior to the Reorganization, to Xinan Renrui and/or its subsidiaries as part of the Reorganization.

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For further details of the relevant Reorganization steps, please see the section headed “History, Reorganization and Corporate Structure — Corporate Restructuring” in this document.

Restrictions on foreign ownership in Shanghai Renrui Recruitment Services and Client Service Representative BPO Services

As advised by our PRC Legal Advisor, VATS include the provision of commercial Internet information services to online users and call center services, and the provision of (i) the Shanghai Renrui Recruitment Services through the use of the Xiang Recruitment App which is connected to the Xiang Recruitment Platform by Shanghai Renrui (as an operator of Internet content provision services) constitute the provision of commercial Internet information services to online users and (ii) the Client Service Representative BPO Services to perform client service call center operations which are currently operated by Liaoning Renrui constitute the provision of call center services. Therefore, both the Shanghai Renrui Recruitment Services and the Client Service Representative BPO Services involve the provision of the VATS in the Catalogue and the Old Negative List. The VATS (except for operating e-commerce business) was categorised as a “restricted” category under the Old Negative List, which is therefore subject to a restriction on foreign ownership of not holding more than 50%. The provision of VATS requires the VATS Licence, while specifically the Client Service Representative BPO Services requires the VATS Licence in the category of call center services (the “**VATS Call Center Licence**”). Furthermore, according to the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (revised in 2016)(《外商投資電信企業管理規定(2016年修訂)》) last amended by the State Council on February 6, 2016, the proportion of capital contributed by the foreign investor(s) in a foreign-invested telecommunications enterprise that is engaged in VATS shall not ultimately exceed 50%, and the foreign investor in a foreign-invested telecommunications enterprise that is engaged in VATS shall have a proven track record and experience in operating VATS under the relevant regulations (the “**VATS Qualification Requirement**”). We operate the Shanghai Renrui Recruitment Services and the Client Service Representative BPO Services under the Modified Contractual Arrangements, and are of the view that the Modified Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with laws and regulations for the following reasons:

1. As advised by our PRC Legal Advisor, the provision of Shanghai Renrui Recruitment Services and Client Service Representative BPO Services by our Group requires the holding of a VATS Licence. Shanghai Renrui and Liaoning Renrui have obtained such VATS Licences. Shanghai Renrui Recruitment Services are provided by Shanghai Renrui, and Client Service Representative BPO Services are provided by Liaoning Renrui.

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2. Based on the consultations with the Market Division of Information and Communication Administration (信息通信管理局市場處) of the MIIT conducted on January 18, 2019 and February 1, 2019 (the “**MIIT Consultations**”), which is the competent authority to give the relevant confirmations as confirmed by our PRC Legal Advisor, the following have been confirmed:
- (i) no applicable PRC laws or regulations or rules provides clear guidance or interpretation on the VATS Qualification Requirement, and the determination of whether a foreign investor satisfies the VATS Qualification Requirement is subject to substantive discretion by the MIIT on a case-by-case basis; and
 - (ii) if Chengdu Tianfu introduces a foreign investor, even if such foreign investor fulfils the VATS Qualification Requirement, VATS Licence(s) cannot be granted to Chengdu Tianfu or its subsidiaries.

In light of the above applicable PRC laws and regulations and policy of the relevant government authorities as set out above and the MIIT Consultations, it is not feasible for our Company or its subsidiaries to hold the maximum equity interest permissible under current PRC laws and regulations in Chengdu Tianfu and/or its subsidiaries through the form of a sino-foreign equity joint venture or wholly-owned foreign investment entity structure. Accordingly, we adopt the Modified Contractual Arrangements in connection with our Consolidated Affiliated Entities.

For further details of the limitations on foreign ownership in PRC companies conducting VATS and/or holding VATS Licences, and the applicable licensing and approval requirements under PRC laws and regulations, please see the section headed “Regulatory Overview — Regulations Relating to Value-added Telecommunication Services” in this document.

Reorganization

On the basis of the Old Negative List and the MIIT Consultations, we have consolidated (i) Shanghai Renrui, which conducts Shanghai Renrui Recruitment Services and holds a VATS Licence, (ii) Liaoning Renrui, which conducts the Client Service Representative BPO Services and holds a VATS Call Center Licence, and (iii) Beijing Ruilian, which conducts the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement (please refer to “ — Restrictions on foreign ownership in Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement” in this section below) and holds a VATS Call Center Licence, under our Consolidated Affiliated Entities.

For further details of the relevant Reorganization steps, please see the section headed “History, Reorganization and Corporate Structure — Corporate Restructuring” in this document.

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Restrictions on foreign ownership in Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement

Despite the restrictions on foreign investors to own interests in Beijing Ruilian, which holds a VATS Call Center Licence and is a wholly-owned subsidiary of Chengdu Tianfu, as set out in “ — Restrictions on foreign ownership in Shanghai Renrui Recruitment Services and Client Service Representative BPO Services” in this section above, the provision of flexible staffing services by Beijing Ruilian is not explicitly subject to any foreign investment restrictions under the relevant PRC legal and regulatory framework and as confirmed by the competent regulatory authorities, as set out in “ — Restrictions on foreign ownership in flexible staffing services, Non-Shanghai Renrui Recruitment Services, corporate training services, labor dispatch services, information verification BPO services and questionnaire survey BPO services” in this section above. However, Beijing Ruilian has been providing, and will continue after the [REDACTED] to provide, the Client Service Representative Flexible Staffing Services to certain key clients (the “**Key Clients**”) of our Group.

Pursuant to the relevant contracts our Group entered into with these Key Clients, the relevant tender documents, and/or as confirmed by these Key Clients, due to commercial reasons they have required that our Group’s entities which provide the Client Service Representative Flexible Staffing Services to them must be holders of a VATS Call Center Licence (i.e. the Client-imposed Licence Requirement). However, the relevant entity of our Group is not explicitly required under PRC laws to obtain a VATS Call Center Licence solely for providing the Client Service Representative Flexible Staffing Services to these Key Clients as confirmed by our PRC Legal Advisor. The amount of revenue our Group derived from the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement amounted to approximately RMB29.58 million, RMB62.07 million, RMB86.00 million and RMB15.54 million, and accounted for approximately 7.86%, 8.00%, 5.32% and 1.44% of our Group’s total revenue, for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 respectively. As of June 30, 2019, Beijing Ruilian had eight clients which have imposed the Client-imposed Licence Requirement.

To the best knowledge and belief of our Company, the Key Clients have imposed the Client-imposed Licence Requirement because they believe that the ability of their service providers to operate client service call center functions on their own, which would be best demonstrated by the award of a VATS Call Center Licence (which is subject to a number of prerequisites¹) by the relevant authority, is critical to ensure that their service providers are capable of delivering high quality services to the Key Clients. According to CIC, as of June 30, 2019, among approximately 36,000 HR corporations in the PRC, (i) around only 10% of them

¹ According to the Measures for the Administration of Telecommunications Business Licensing (電信業務經營許可管理辦法) (revised in 2017), these prerequisites include (1) the operator has sufficient funds and suitable professionals to carrying out relevant business activities; (2) the operator has the credibility or ability to provide long-term services to users; (3) the operator must have a minimum registered capital of RMB1 million for operation within a province, autonomous region and/or municipality; and a minimum registered capital of RMB10 million for nationwide operations or operations cross-provinces/ autonomous regions/ municipalities; (4) the operator must have the necessary venues, facilities and technical solutions; (5) the operator or its major investors or major management personnel are not included in the Untrusted Operator List of Telecommunication Business (電信業務經營失信名單); and (6) other conditions as may be stipulated by the state.

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have a registered capital of RMB10 million or above, and (ii) around only 0.3% of them possess VATS Call Center Licences. As leading enterprises in their respective fields, we believe that it is not unreasonable for the Key Clients to impose a standard of service requirement on their service providers which is more stringent than that required by the law.

In order to narrowly tailor our VIE structure as required by the Stock Exchange’s listing decision HKEx-LD43-3, our Group had entered into negotiations with all of these clients in an effort to remove the Client-imposed Licence Requirement and to facilitate our Group to transfer our contracts with these clients to Xinan Renrui and/or one of its subsidiaries (being our Group’s wholly owned subsidiaries). In particular, our Group has successfully persuaded four out of these eight clients to do the same. As of the Latest Practicable Date, Beijing Ruilian is expected to have an aggregate of four contracts with the remaining four Key Clients respectively which will subsist relating to the provision of the Client Service Representative Flexible Staffing Services which remain subject to the Client-imposed Licence Requirement, the details of which are set out as follows:

Two Key Clients agreed not to impose the Client-imposed Licence Requirement when renewing contracts: Upon our Group’s assurance that the quality of services provided by our Group would not be adversely affected by a change in the signing entity of our Group from Beijing Ruilian to Xinan Renrui and/or its subsidiaries, two Key Clients have agreed to remove the Client-imposed Licence Requirement and sign contracts with Xinan Renrui and/or its subsidiaries when these Key Clients renew their contracts with our Group upon the expiry of their existing contracts. However, they have not agreed to amend and transfer their existing contracts to Xinan Renrui and/or its subsidiaries. The total amount of revenue derived from these contracts during the year ended December 31, 2018 and the six months ended June 30, 2019 was approximately RMB931,972 and RMB627,902 respectively, which represented less than 0.06% and 0.06% of our Group’s total revenue for the year ended December 31, 2018 and the six months ended June 30, 2019 respectively. These contracts will expire at the latest by December 2019.

Two Key Clients continue to impose the Client-imposed Licence Requirement: Two Key Clients, being a leading American multinational technology company which operates e-commerce and cloud computing platform (“**Client A**”) and a company principally engaged in property development and property investment in the PRC (“**Client B**”), have not agreed to remove the Client-imposed Licence Requirement despite our Group’s reassurance on quality of services, as the Client-imposed Licence Requirement is part of these Key Clients’ internal policies which apply generally to all suppliers of similar services to ensure a high standard of services, and a supplier’s ability to meet the Client-imposed Licence Requirement is one of the key criteria which these Key Clients would take into account when considering whether or not to engage or continue to engage a particular supplier (including our Group) to provide these services. The total amount of revenue derived from these contracts during the year ended December 31, 2018 and the six months ended June 30, 2019 was approximately RMB10.66 million and RMB9.57 million respectively, which represented approximately 0.7% and 0.9% of our Group’s total revenue for the year ended December 31, 2018 and the six months ended

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June 30, 2019 respectively. Our Group would run the risk of losing these two Key Clients if we were to insist using Xinan Renrui and/or its subsidiaries to contract with them, and such outcome would be detrimental to the performance of our Group and would not be in the best interests of our Group or the Shareholders.

Annual Revenue Cap

In light of the above, our Group will adopt an annual cap after the completion of the [REDACTED] on the revenue to be derived in future from the contracts subject to the Client-imposed Licence Requirement to be no more than 5% of our Group’s revenue in respect of the relevant year (the “**Annual Revenue Cap**”). We undertake to maintain the Annual Revenue Cap at such level and will only adjust the Annual Revenue Cap in future if there is a legitimate business need and due approval from the independent Shareholders at a Shareholders’ general meeting (at which the Registered Shareholders and their associates will be required to abstain from voting) has been obtained, provided always that any proposed adjustment of the Annual Revenue Cap (the “**Proposed Adjustment**”) will not exceed 15% of the then-effective Annual Revenue Cap.

The Annual Revenue Cap is determined after taking into account the following factors:

- (i) the historical revenue derived from Client A and Client B in respect of the Client Service Representative Flexible Staffing Services and the amount of revenue which our Group currently estimates to derive in this respect from these two Key Clients in the next few years;
- (ii) the total amount of revenue our Group derived from the Client Service Representative Flexible Staffing Services which are subject to the Client-imposed Licence Requirement, excluding those derived from Client A and Client B, amounted to approximately RMB29.58 million, RMB61.13 million, RMB75.34 million and RMB5.97 million, and accounted for approximately 7.86%, 7.88%, 4.66% and 0.55% of our Group’s total revenue, for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, respectively. At the initial stage of our relationship with our clients, our Group would generally not be in a position to successfully negotiate for the removal of the Client-imposed Licence Requirement. For instance, some clients have in the past stipulated the Client-imposed Licence Requirement as a condition in the initial tender documents inviting service providers such as our Group to provide the Client Service Representative Flexible Staffing Services. Our Group has only managed to persuade some of our clients to remove the Client-imposed Licence Requirement after gaining the trust from and establishing a strong relationship with these clients through delivering a high quality of service over a period of time. Having said that, our Group cannot rule out the possibility that those existing clients who have agreed to remove the Client-imposed Licence Requirement may potentially re-introduce such requirement in the future (for instance, as a result of changes in the clients’ management teams). Furthermore, as the largest flexible staffing services provider in China, our Group expects to continue to face increasing demand from other new industry-leading and sophisticated clients who request for a higher standard of service as demonstrated

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by the award of a VATS Call Center Licence. Similar to our Group’s experience with our existing Key Clients, our Group believes that it may not be realistic and practicable, especially at the early stages of our cooperation with such new clients, to successfully negotiate for a removal of the Client-imposed Licence Requirement; and

- (iii) the expected rapid growth in the flexible staffing services market in China based on the information provided by CIC that the flexible staffing services market is expected to grow at a CAGR of 24.5% from RMB59.2 billion in 2018 to RMB177.1 billion in 2023.

In the event that we propose to adjust the Annual Revenue Cap, for the purpose of assisting the independent Shareholders to make an informed decision on whether to vote for or against the Proposed Adjustment, we will comply with the announcement and independent shareholders’ approval requirements as if we are proposing for changes to the annual cap for continuing connected transactions pursuant to 14A.54 of the Listing Rules. An independent board committee will be set up and an independent financial adviser will be appointed for the purpose of the Shareholders’ general meeting(s). The circular will include a letter from the independent financial adviser containing its opinion and recommendation on the Proposed Adjustment. The independent board committee will, taking into account the recommendation of the independent financial adviser, advise the independent Shareholders as to how to vote on the Proposed Adjustment.

In order to keep the revenue to be derived from contracts subject to the Client-imposed Licence Requirement to a minimum and in any event not to exceed the then-effective Annual Revenue Cap, we will adopt the following control measures for our Group’s existing and potential new clients which impose the Client-imposed Licence Requirement on our Group’s provision of the Client Service Representative Flexible Staffing Services:

- *Renegotiate with Client A and Client B:* Our Group will use our reasonable endeavours to renegotiate with Client A and Client B to remove the Client-imposed Licence Requirement at an appropriate time in future.
- *Negotiate with new or other existing clients:* To the extent any new clients seek to impose the Client-imposed Licence Requirement, or any existing clients which have agreed to remove such requirement but seek to re-introduce it in the future, our Group will use our reasonable endeavours to negotiate with such clients not to add the Client-imposed Licence Requirement into the relevant contracts.
- *Use of signing entities:* To the extent Client A and/or Client B agree not to impose the Client-imposed Licence Requirement when renewing their contracts, and to the extent the new or other existing clients do not (or agree not to) impose the Client-imposed Licence Requirement, our Group will use Xinan Renrui and/or one of its subsidiaries to enter into the relevant client contracts and the corresponding employee contracts.

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- *Transfer of relevant contracts:* We will transfer the relevant client contracts and the corresponding employee contracts to Xinan Renrui and/or its subsidiaries as soon as reasonably practicable in the event that the relevant clients lift the Client-imposed Licence Requirement and agree to such transfer.
- *Reporting by our business units:* Our relevant business units shall report to our finance department the revenue to be derived from contracts subject to the Client-imposed Licence Requirement on a monthly basis.
- *Annual review by the independent non-executive Directors:* Our independent non-executive Directors will review, on an annual basis, the contractual terms of the contracts subject to the Client-imposed Licence Requirement entered into by Beijing Ruilian, and (i) assess whether our relevant business units have engaged in negotiations as stated above with the relevant clients prior to entering into such contracts, (ii) confirm that the then-effective Annual Revenue Cap has not been exceeded and (iii) provide impartial and professional advice to protect the interests of the minority Shareholders (if necessary).
- *Providing all necessary information to the independent non-executive Directors:* For the purpose of the annual review by the independent non-executive Directors, we will appoint an internationally recognized independent accounting firm to conduct agreed-upon procedures in relation to the relevant revenue, and we undertake to provide to the independent non-executive Directors all information necessary, including all relevant contracts, correspondence with clients, financial, operational and market information of our Group and any other necessary information as required by the independent non-executive Directors, as soon as reasonably practicable.
- *Disclosure in the annual reports:* We will disclose the findings of the annual review by the independent non-executive Directors and their advices (if applicable) in our annual reports.

Subsequent Development in Response to the New Negative List

On June 30, 2019, the MOFCOM and the National Development and Reform Commission issued the New Negative List, which took effect on July 30, 2019 and superseded the Old Negative List. The Old Negative List imposed a restriction on foreign ownership of not holding more than 50% in VATS (except for operating e-commerce business), while the New Negative List now expands the exception into the operation of e-commerce business, domestic multi-party communications, storage and forwarding services, and call centers. As advised by our PRC Legal Advisor, the effect of the New Negative List on our Group is that the restrictions on foreign ownership percentage to no more than 50% no longer apply to (i) call center services i.e. the Client Service Representative BPO Services currently conducted by Liaoning Renrui and (ii) the holder of the VATS Call Center Licence, i.e. Beijing Ruilian. As further advised by our PRC Legal Advisor, there has been no change in the foreign ownership restrictions that apply to the Shanghai Renrui Recruitment Services conducted by Shanghai Renrui under the New Negative List.

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Based on telephone consultations separately conducted by our PRC Legal Advisor and the Sole Sponsor’s PRC legal advisor with the MIIT and subsequent searches conducted by them for update on regulations and guidances in relation to call center services on the official website of the MIIT, the MIIT has not provided any further guidance on, among others, the interpretation and implementation of the New Negative List and the impact of the New Negative List on the processing of applications for the VATS Call Center Licence by the relevant regulatory authorities.

In order to narrowly tailor our VIE structure in accordance with the Stock Exchange’s listing decision HKEx-LD43-3 in light of the New Negative List, our Company has established Liaoning Corporate, an indirect wholly-owned subsidiary of our Company, on September 10, 2019, and Liaoning Corporate has on September 23, 2019 submitted to the MIIT the application for the VATS Call Center Licence (the “**VATS Call Center Licence Application**”), which is the necessary licence in order to carry out the Client Service Representative BPO Services, on the assumption that the New Negative List will be strictly interpreted and implemented to allow the Client Service Representative BPO Services to be conducted by entities which are directly or indirectly and wholly owned by foreign entities, and the VATS Call Center Licence to be held by entities which are directly or indirectly and wholly owned by foreign entities. The VATS Call Center Licence Application is subject to the approval by the MIIT. As of the Latest Practicable Date, Liaoning Corporate’s VATS Call Center Licence Application is still being reviewed by the MIIT.

(i) Scenario of not being able to obtain the VATS Call Center Licence

In the event that Liaoning Corporate could not obtain the VATS Call Center Licence despite the coming into effect of the New Negative List, we will not effect any further reorganization and will continue to operate the Client Service Representative BPO Services and the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement through the Consolidated Affiliated Entities as they are currently conducted (and in the case of the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement, subject to the Annual Revenue Cap).

(ii) Scenario of being able to obtain the VATS Call Center Licence

- *Proposed further reorganization and expected timing*
 - In the event that Liaoning Corporate has obtained the VATS Call Center Licence, we intend to transfer (i) the Client Service Representative BPO Services conducted by Liaoning Renrui, and (ii) the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement conducted by Beijing Ruilian, comprising all of the relevant contracts, to Liaoning Corporate after Liaoning Corporate has obtained the VATS Call Center Licence. The amount of revenue our Group derived from the Client Service Representative BPO Services and the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement amounted to approximately RMB29.58 million, RMB 62.43

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million, RMB 93.01 million and RMB 16.54 million, and accounted for approximately 7.86%, 8.04%, 5.76% and 1.54 % of our Group’s total revenue, for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, respectively.

- In anticipation of the possible approval of the VATS Call Center Licence Application, we have entered into negotiations with, and have successfully persuaded, the five existing clients of Liaoning Renrui and Beijing Ruilian, which currently hold the VATS Call Center Licences, to cooperate and transfer their respective contracts (the “**VATS Call Center Licences Existing Contracts**”) to Liaoning Corporate once Liaoning Corporate has obtained the VATS Call Center Licence. Our Group currently expects that it will take approximately nine months from the time of submission of the VATS Call Center Licence Application, for Liaoning Corporate to obtain the VATS Call Center Licence (if successful), and approximately one to three months after Liaoning Corporate has obtained the VATS Call Center Licence to complete the transfer of these five contracts from Liaoning Renrui and Beijing Ruilian to Liaoning Corporate. Therefore, based on our estimate in light of the information currently available on the time required to obtain the VATS Call Center Licence and our communication with these existing clients, we currently expect to complete the transfer of all of VATS Call Center Licences Existing Contracts to Liaoning Corporate by or around September 2020.
- *Arrangement for new contracts*
 - In order for our Group to be able to continue to provide the Client Service Representative BPO Services and the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement to potential new clients before Liaoning Corporate obtains the VATS Call Center Licence, we intend to enter into contracts with potential new clients for the provision of the Client Service Representative BPO Services and the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement after the [REDACTED] through Liaoning Renrui and Beijing Ruilian until such time as when Liaoning Corporate has obtained the VATS Call Center Licence. In the event that there are any such new contracts, we undertake that we will negotiate with such new clients to agree to the transfer of their contracts to Liaoning Corporate as soon as reasonably practicable after Liaoning Corporate obtains the VATS Call Center Licence, and in any event on or before the last of the VATS Call Center Licences Existing Contracts is transferred to Liaoning Corporate.
 - Upon the successful transfer of all of the VATS Call Center Licences Existing Contracts and the new contracts to be entered into by Liaoning Renrui and Beijing Ruilian to Liaoning Corporate, we intend to deregister both Liaoning Renrui and Beijing Ruilian.

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- In the event that Liaoning Corporate has obtained the VATS Call Center Licence and we conduct the above further reorganization as set out above, the Annual Revenue Cap in the case of the Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement will no longer be relevant as our Group’s Client Service Representative Flexible Staffing Services subject to the Client-imposed Licence Requirement will then be conducted by Liaoning Corporate (as an indirect wholly-owned subsidiary of our Company).

We will keep our Shareholders and potential investors informed of material development in relation to the status of the VATS Call Center Licence Application either in our annual and interim reports or by way of announcements as and when appropriate.

QUALIFICATION REQUIREMENTS

In addition to restrictions on foreign ownership, there are also regulatory requirements on the experience and operations of a foreign investor who intends to invest in the VATS in the PRC.

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises 《外商投資電信企業管理規定》(the “**FITE Regulations**”) was promulgated on December 11, 2001 and last amended on February 6, 2016 by the State Council. According to the FITE Regulations, foreign investor who invests in VATS in the PRC must possess the VATS Qualification Requirement. The MIIT issued a guidance memorandum on its official website in relation to the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide satisfactory proof of the VATS Qualification Requirement. The guidance memorandum, however, does not purport to provide an exhaustive list on the application requirement. As confirmed through the MIIT Consultations, no applicable PRC laws or regulations or rules provides clear guidance or interpretation on the VATS Qualification Requirement.

Despite the lack of clear guidance or interpretation on the VATS Qualification Requirement, we have been gradually building up our track record of overseas VATS operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Chengdu Tianfu when the relevant PRC laws and authorities allow foreign investors to invest and hold (or to increase, as applicable) equity interests in enterprises which engage in VATS and/or hold the VATS Licence.

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We have taken the following measures to meet the VATS Qualification Requirement, so as to be qualified to acquire the relevant interests in Chengdu Tianfu and its subsidiaries, namely Shanghai Renrui, Liaoning Renrui, Beijing Ruilian and Guiyang Renrui, which are permitted to be held by a foreign investor when there is clear guidance or interpretation of the VATS Qualification Requirement or the foreign investment restrictions in operating the VATS and/or holding the VATS Licence are lifted:

- Renrui (HK) and Tournesol Human Resources Limited, wholly-owned subsidiaries of our Company, have been incorporated in Hong Kong for the purposes of establishing and expanding our operations overseas;
- We have applied for, and are in the process of registering, trademarks outside the PRC for the promotion of our relevant businesses overseas;
- We have obtained four domain names outside the PRC, and are in the process of constructing our overseas website, primarily for introducing our relevant businesses to overseas users; and
- We have obtained a Hong Kong local phone number for the promotion of our call centre businesses overseas.

As confirmed through the MIIT Consultations, the determination of whether a foreign investor actually satisfies the VATS Qualification Requirement is subject to substantive discretion by the MIIT on a case-by-case basis.

Subject to the discretion of the competent authority in determining whether our Group has fulfilled the VATS Qualification Requirement, our PRC Legal Advisor is of the view that the above steps taken by us may be deemed as reasonable in relation to the VATS Qualification Requirement.

We will, as applicable and when necessary, disclose the progress of our overseas business plans and updates to the VATS Qualification Requirement in our annual and interim reports to inform the Shareholders and other investors after the [REDACTED]. We will also make periodic inquiries to relevant PRC governmental authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the VATS Qualification Requirement.

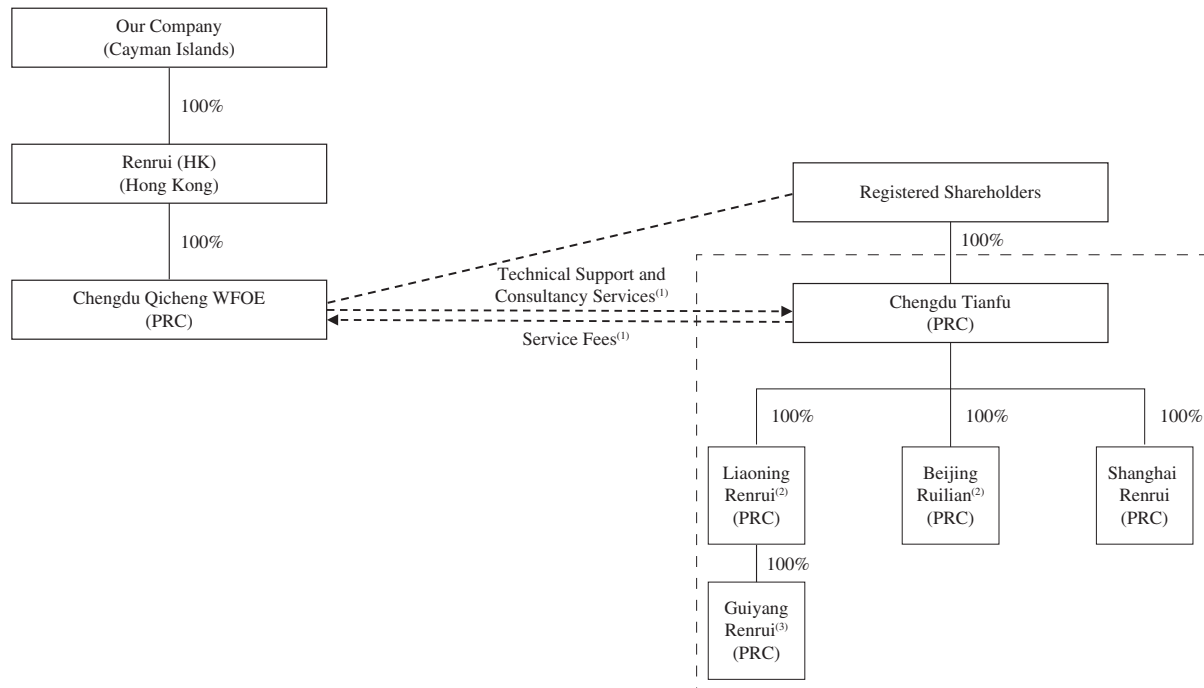
Circumstances under which we will unwind the Modified Contractual Arrangements

Our Group will unwind and terminate the Modified Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Businesses and/or holding the VATS Licences to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants the relevant licences to sino-foreign equity joint ventures or wholly foreign owned enterprises established or to be established by our Company.

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MODIFIED CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Modified Contractual Arrangements after completion of the Reorganization:



Notes:

“———” denotes direct legal and beneficial ownership in the equity interest.

“----->” denotes contractual relationship.

“-----” denotes control by Chengdu Qicheng WFOE over the Registered Shareholders and Chengdu Tianfu primarily through (i) powers of attorney to exercise all shareholders’ rights in Chengdu Tianfu, (ii) exclusive options to acquire all or part of the equity interests in and/or assets of Chengdu Tianfu and (iii) share pledges over the equity interests in Chengdu Tianfu.

- (1) Our Consolidated Affiliated Entities will pay services fees to Chengdu Qicheng WFOE in exchange for technical support and consultancy services. Please refer to “ — Summary of the material terms of the Modified Contractual Arrangements — Exclusive Services Agreement” in this section for further details.
- (2) We intend to deregister Liaoning Renrui and Beijing Ruilian in the event that all relevant contracts entered into by Liaoning Renrui and Beijing Ruilian have been transferred to Liaoning Corporate after Liaoning Corporate has obtained the VATS Call Center Licence. Please refer to the section headed “Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership Restrictions — Subsequent Development in Response to the New Negative List” in this document for further details.
- (3) Guiyang Renrui has submitted an application for the VATS Call Center Licence but has since terminated such application as a result of a change in our Group’s business plan. As confirmed by our Directors, we have not conducted any business through Guiyang Renrui since its establishment in February 2019 and up to the Latest Practicable Date and we do not intend to do so going forward, and we intend to deregister Guiyang Renrui in due course.

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Summary of the material terms of the Modified Contractual Arrangements

Exclusive Services Agreement

Pursuant to the exclusive services agreement entered into by and among Chengdu Qicheng WFOE, Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities, and the Registered Shareholders on April 1, 2019 (the “**Exclusive Services Agreement**”), Chengdu Qicheng WFOE has the exclusive right to provide or to designate any third party to provide, technical support and consultancy services to our Consolidated Affiliated Entities. Such services to our Consolidated Affiliated Entities include comprehensive technical support and business support, corporate management consultancy, intellectual property licensing services, advisory services on asset and business operation, debt disposal, material contracts or mergers and acquisitions, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal information management, network development, upgrade and ordinary maintenance services, sales of proprietary products, and software and trademark and other types of intellectual property rights and other additional services as the parties may mutually agree from time to time. Without Chengdu Qicheng WFOE’s prior written consent, none of our Consolidated Affiliated Entities and the Registered Shareholders may accept services covered by the Exclusive Services Agreement from any third party. Chengdu Qicheng WFOE exclusively owns all intellectual property rights arising out of the performance of this agreement.

Pursuant to the Exclusive Services Agreement, Chengdu Tianfu and the Registered Shareholders have undertaken to procure any subsidiary entity to be established after the date of such agreement invested and controlled by Chengdu Tianfu to acknowledge that it will assume rights and obligations as a subsidiary entity of Chengdu Tianfu under the agreement.

In consideration of the services provided by Chengdu Qicheng WFOE or its designated third party, our Consolidated Affiliated Entities agreed to pay service fees equal to total revenue deducting the relevant costs, fees, tax expenses and reserved funds as required by applicable PRC laws and regulations to Chengdu Qicheng WFOE or its designated third party which provided the services, and they will agree with Chengdu Qicheng WFOE or its designated third party which provided the services on the actual amount of the service fees to be paid based on the actual situation.

The Exclusive Services Agreement shall remain valid during the term of operation of each of the parties to the agreement unless the parties mutually agree to terminate. In addition, during the period of validity, Chengdu Qicheng WFOE has the unilateral right to terminate by providing 30 days’ advance written notice to Chengdu Tianfu and the Registered Shareholders.

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Exclusive Option Agreement

Under the exclusive option agreement entered into by and among Chengdu Qicheng WFOE, the Registered Shareholders and Chengdu Tianfu on April 1, 2019 (the “**Exclusive Option Agreement**”), the Registered Shareholders unconditionally and irrevocably agreed to grant Chengdu Qicheng WFOE an exclusive, unconditional and irrevocable option for Chengdu Qicheng WFOE or its designated third party to purchase all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu at the lowest price permitted under the PRC laws and regulations, under circumstances in which Chengdu Qicheng WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu.

The Registered Shareholders shall return the amount of purchase price they have received to Chengdu Tianfu, Chengdu Qicheng WFOE or its designated third party as requested by Chengdu Qicheng WFOE after deduction of the relevant expenses, expenditure and taxes.

In order to prevent the flow of the assets and value of our Consolidated Affiliated Entities to their respective shareholders, pursuant to the Exclusive Option Agreement, none of the assets of our Consolidated Affiliated Entities are to be transferred or otherwise disposed of without the written consent of Chengdu Qicheng WFOE. In addition, under the Exclusive Option Agreement, none of the shareholders of our Consolidated Affiliated Entities may transfer or allow any form of security or pledge or guarantee or any third party interest to be created on any of their equity interests in our Consolidated Affiliated Entities without Chengdu Qicheng WFOE’s prior written consent.

In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to Chengdu Qicheng WFOE or its designated third party. If Chengdu Qicheng WFOE exercises this option, all or any part of the equity interests in and/or the relevant assets of Chengdu Tianfu acquired would be transferred to Chengdu Qicheng WFOE and the benefits of equity ownership would flow to Chengdu Qicheng WFOE and its shareholders.

The Exclusive Option Agreement shall remain valid unless Chengdu Qicheng WFOE or its designated third party exercises the option and has acquired all of the equity interests in and/or the relevant assets of Chengdu Tianfu, or all parties to the Exclusive Option Agreement have executed a written agreement to terminate the Exclusive Option Agreement, whichever is earlier.

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Share Pledge Agreement

Pursuant to the share pledge agreement entered into by and among Chengdu Qicheng WFOE, the Registered Shareholders and Chengdu Tianfu on April 1, 2019 (the “**Share Pledge Agreement**”), the Registered Shareholders unconditionally and irrevocably pledged all of their equity interests in Chengdu Tianfu as the first charge to Chengdu Qicheng WFOE to guarantee performance of the obligations of Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities, and the Registered Shareholders under the Share Pledge Agreement, the Exclusive Option Agreement, the Exclusive Services Agreement and the Exclusive Business Operation Agreement (including Powers of Attorney). Under the Share Pledge Agreement, the Registered Shareholders have agreed that, without the prior written consent of Chengdu Qicheng WFOE, they will not transfer or dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests that would prejudice Chengdu Qicheng WFOE’s interest.

The share pledge is required to be registered under the relevant laws and regulations. The share pledge of Chengdu Tianfu under the old Contractual Arrangements has been registered with the relevant authority on December 26, 2017. We are in the process of applying for the registration of the share pledge of Chengdu Tianfu under the Modified Contractual Arrangements with the relevant authority. The Share Pledge Agreement shall remain valid until (i) the full performance, or the nullification or termination of the Exclusive Option Agreement, the Exclusive Services Agreement and the Exclusive Business Operation Agreement (including Powers of Attorney), or (ii) all parties to the Share Pledge Agreement have executed a written agreement to terminate the Share Pledge Agreement, whichever is later.

Exclusive Business Operation Agreement

Pursuant to the exclusive business operation agreement entered into by and among Chengdu Qicheng WFOE, Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities, and the Registered Shareholders on April 1, 2019 (the “**Exclusive Business Operation Agreement**”), the Registered Shareholders agreed that, unless with the prior written consent from Chengdu Qicheng WFOE or its designated third party, Chengdu Tianfu and its subsidiary entities will not conduct any transaction that may have impact on their assets, businesses, manpower, obligations, rights or the operation of these companies on terms as set out in the Exclusive Business Operation Agreement.

Chengdu Tianfu and the Registered Shareholders agreed to accept and strictly enforce the advice from Chengdu Qicheng WFOE regarding the recruitment and dismissal of employees, daily operation management and financial management of Chengdu Tianfu and its subsidiary entities.

The Exclusive Business Operation Agreement shall remain valid during the term of operation of each of the parties to the agreement unless Chengdu Qicheng WFOE exercises its unilateral right to terminate by providing 30 days’ advance written notice to Chengdu Tianfu and the Registered Shareholders.

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Powers of Attorney

Each of the Registered Shareholders and Chengdu Tianfu has entered into irrevocable powers of attorney with Chengdu Qicheng WFOE dated April 1, 2019 (the “**Powers of Attorney**”) appointing Chengdu Qicheng WFOE, or any person designated by Chengdu Qicheng WFOE, as his/her/its attorney-in-fact to, among others, appoint directors and vote on his/her/its behalf on all matters of our Consolidated Affiliated Entities requiring shareholders’ approval under their respective articles of association (as applicable) and under the relevant PRC laws. These Powers of Attorney will remain effective as long as each of the Registered Shareholders and Chengdu Tianfu remains a shareholder of Chengdu Tianfu or its subsidiary entities (as the case maybe), unless Chengdu Qicheng WFOE requests to replace the appointed designee under the Powers of Attorney.

In addition, the Powers of Attorney specifically provide that (i) the attorney-in-fact is entitled to sign minutes, file documents with the relevant governmental regulatory authorities, and (ii) in the event of a winding-up of any of our Consolidated Affiliated Entities, the attorney-in-fact has the right to appoint a liquidator to manage or distribute the assets obtained after such winding-up for the benefit of our Company and the Shareholders.

Those of our powers to direct the activities of our Consolidated Affiliated Entities that most significantly impact these entities’ economic performance include:

- (a) as the attorney-in-fact of shareholders, we elect all members of the board of directors for each of our Consolidated Affiliated Entities and vote on matters requiring approval from shareholders;
- (b) through the control over the Consolidated Affiliated Entities’ boards, we appoint all senior management and review and approve operating, financing and recruiting plans; and
- (c) through control over the management team, we effectively control the daily operations of our Consolidated Affiliated Entities.

Spouses’ Undertakings

Ms. Wang Fen (王芬), Ms. Wu Qi (吳頌), and Mr. Chen Bin (陳斌), being the respective spouses of the Registered Shareholders, executed irrevocable undertakings on April 1, 2019 (the “**Spouses’ Undertakings**”) whereby he or she expressly and irrevocably (i) acknowledged the entry into of the Modified Contractual Arrangements by Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, respectively; (ii) undertook that he or she shall not take any actions that are in conflict with the purpose and intention of the Modified Contractual Arrangements, including acknowledging that any equity interests held by Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, respectively, do not fall within the scope of their community properties; and (iii) confirmed that his or her consent and approval is not required for the implementation of the Modified Contractual Arrangements, any amendments thereto or the termination thereof.

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Dispute Resolution

In the event of any dispute with respect to the construction and performance of the provisions, each of the Exclusive Services Agreement, the Exclusive Option Agreement, the Share Pledge Agreement and the Exclusive Business Operation Agreement (including Powers of Attorney) stipulates that the parties shall negotiate in good faith to resolve the dispute. In the event the parties fail to reach an agreement on the resolution of such a dispute, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties.

The dispute resolution clause in each of the agreements underlying the Modified Contractual Arrangements also provides that the arbitral tribunal may award remedies over the equity interests in and/or assets of Chengdu Tianfu, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Chengdu Tianfu; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our Consolidated Affiliated Entities) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the equity interests in and/or assets of Chengdu Tianfu.

However, our PRC Legal Advisor has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Chengdu Tianfu pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable under the current PRC laws.

Even if the abovementioned provisions may not be enforceable under the current PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreements underlying the Modified Contractual Arrangements.

As a result of the above, in the event that any of our Consolidated Affiliated Entities or the Registered Shareholders breaches any of our Modified Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. Please see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document for details.

Succession

The provisions set out in the Modified Contractual Arrangements are also binding on the successors or assignees of Chengdu Qicheng WFOE or shareholders of our Consolidated Affiliated Entities, as if such successor or assignee was a signing party to the Modified Contractual Arrangements notwithstanding how the successors or assignees acquire the rights and obligations under the Modified Contractual Arrangements. In particular, pursuant to the Exclusive Services Agreement, the Exclusive Option Agreement, the Share Pledge Agreement and the Exclusive Business Operation Agreement (including Powers of Attorney),

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unless otherwise agreed, the rights and obligations under these agreements shall be binding on the successors or assignees (whether such rights and obligations is acquired, restructured, inherited, transferred or otherwise caused) of the parties to the agreements. Although our Modified Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Modified Contractual Arrangements. In case of a breach, Chengdu Qicheng WFOE or our Company can enforce its right against the successors. Further, pursuant to the Powers of Attorney and the Exclusive Option Agreement, in the event of death, bankruptcy, divorce or any other event which causes the inability of any of the Registered Shareholders to perform their day-to-day obligations or may affect their equity interests in Chengdu Tianfu, the successor of such Registered Shareholder shall inherit any of the rights and obligations of any of the Registered Shareholders under the Modified Contractual Arrangements subject to him or her being bound by the provisions of the Powers of Attorney and the Exclusive Option Agreement. In addition, Chengdu Qicheng WFOE’s rights to the equity interest pledged under the Share Pledge Agreement shall not be affected by legal proceedings brought by any of the Registered Shareholders, their successors, assignees or any other person.

Conflicts of Interests

To ensure our effective control over our Consolidated Affiliated Entities, we have implemented measures to protect against the potential conflicts of interest between our Group and the Registered Shareholders. Pursuant to the Exclusive Option Agreement, the Registered Shareholders agreed to grant Chengdu Qicheng WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu, under circumstances in which Chengdu Qicheng WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu. Under the irrevocable Powers of Attorney executed by each of the Registered Shareholders and Chengdu Tianfu, they appointed Chengdu Qicheng WFOE, or any person designated by Chengdu Qicheng WFOE, as their respective attorney-in-fact to appoint directors and vote on his/her/its behalf on all matters of our Consolidated Affiliated Entities requiring shareholders’ approval under their respective articles of associations (as applicable) and under the relevant PRC laws and regulations. The Exclusive Business Operation Agreement also provides that, in order to avoid potential conflicts of interests, where the Registered Shareholders are officers or the Directors of our Company, the powers of attorney are granted in favor of other unrelated officers or Directors of our Company.

Furthermore, there are mechanisms in place to protect against the spouses of the Registered Shareholders from exercising any control or influence over our Consolidated Affiliated Entities. The spouses of the Registered Shareholders executed irrevocable undertakings, the details of which are set out in the paragraph headed “Spouses’ Undertakings” in this section.

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Under the Exclusive Services Agreement, the Registered Shareholders have undertaken that, unless otherwise agreed to by Chengdu Qicheng WFOE in writing, they would not, directly or indirectly engage in, participate, carry out, acquire or hold any business which is or may potentially be in competition with the businesses of Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities or be interested therein.

Based on the above, our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between our Group and the Registered Shareholders and such measures are sufficient to protect our Group’s interest in our Consolidated Affiliated Entities.

Loss Sharing

None of the agreements underlying the Modified Contractual Arrangements expressly provides that our Company or Chengdu Qicheng WFOE is obligated to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Further, Chengdu Tianfu is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or Chengdu Qicheng WFOE, as the primary beneficiary of our Consolidated Affiliated Entities, is not expressly required to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Despite the foregoing, given that our Group conducts part of its businesses in the PRC through our Consolidated Affiliated Entities which hold the requisite PRC licences and approvals, and that our Consolidated Affiliated Entities’ financial conditions and results of operations are consolidated into our Company’s financial statements and results of operations under the applicable accounting principles, our Company’s business, financial conditions and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses. Therefore, the provisions in the agreements underlying the Modified Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on Chengdu Qicheng WFOE and our Company resulting from any loss suffered by our Consolidated Affiliated Entities.

For instance, as provided in the Exclusive Option Agreement, none of the assets of our Consolidated Affiliated Entities are to be transferred or otherwise disposed of without the written consent of Chengdu Qicheng WFOE. In addition, under the Exclusive Option Agreement, none of the shareholders of our Consolidated Affiliated Entities may transfer or allow any form of security or pledge or guarantee or any third party interest to be created on any of their equity interests in our Consolidated Affiliated Entities without Chengdu Qicheng WFOE’s prior written consent.

In addition, under the Exclusive Services Agreement, Chengdu Qicheng WFOE has the right to appoint the directors and the senior management of our Consolidated Affiliated Entities. Without the prior written consent of Chengdu Qicheng WFOE, our Consolidated Affiliated Entities shall not change or remove the directors or the senior management of our Consolidated Affiliated Entities. Chengdu Qicheng WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of our Consolidated

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Affiliated Entities as our Consolidated Affiliated Entities and their shareholders have undertaken not to make any distribution without the prior written consent of Chengdu Qicheng WFOE. Chengdu Qicheng WFOE also has the right to periodically inspect the accounts of our Consolidated Affiliated Entities and the financial results of our Consolidated Affiliated Entities can be consolidated into our Group’s financial information as if they were our Group’s subsidiaries.

Liquidation

According to the Exclusive Services Agreement, the Exclusive Option Agreement and the Powers of Attorney, the Registered Shareholders and our Consolidated Affiliated Entities undertake to appoint a committee designated by Chengdu Qicheng WFOE as the liquidation committee upon the liquidation or dissolution of our Consolidated Affiliated Entities to manage their assets subject to the applicable PRC laws and regulations. In the event of a liquidation or dissolution of our Consolidated Affiliated Entities, subject to the applicable PRC laws and regulations, all of the remaining assets and residual interests of Consolidated Affiliated Entities shall be unconditionally transferred to Chengdu Qicheng WFOE or its designated third party at nil consideration after such liquidation or dissolution.

Termination

The Modified Contractual Arrangements will be terminated once Chengdu Qicheng WFOE or its designated third party holds the entire equity interests in and/or the relevant assets of Chengdu Tianfu under the then PRC laws and regulations if Chengdu Qicheng WFOE or its subsidiaries are able to conduct the Relevant Businesses or hold the VATS Licences directly as a result of being permitted to do so under the then PRC laws and Chengdu Qicheng WFOE is registered as the sole shareholder of Chengdu Tianfu.

Insurance

We do not maintain an insurance policy to cover the risks relating to the Modified Contractual Arrangements.

Our confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through Chengdu Tianfu and its subsidiaries under the Modified Contractual Arrangements.

Legality of the Modified Contractual Arrangements

During the MIIT Consultations, the MIIT confirmed that the Modified Contractual Arrangements do not require any authorization or approval of, or registration with, the MIIT. The MIIT was of the view that the Modified Contractual Arrangements do not violate any applicable laws or regulations and will not be challenged or result in any penalty imposed by the MIIT.

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Based on the MIIT Consultations, our PRC Legal Advisor is of the opinion that the Modified Contractual Arrangements are not in violation of the relevant PRC laws and regulations and has advised that upon execution of the Modified Contractual Arrangements:

- (i) as confirmed by the parties to the agreements underlying the Modified Contractual Arrangements, they have obtained all necessary authorizations to execute and perform the Modified Contractual Arrangements (as applicable);
- (ii) each of Chengdu Qicheng WFOE and Chengdu Tianfu is an independent legal entity which is duly established, and their respective establishment is valid, effective and complies with the relevant PRC laws; each of Chengdu Qicheng WFOE and Chengdu Tianfu has also obtained necessary approvals and completed registration procedures as required by the applicable PRC laws and regulations;
- (iii) none of the agreements underlying the Modified Contractual Arrangements violates any provisions of respective articles of association of Chengdu Qicheng WFOE, Chengdu Tianfu and its subsidiaries;
- (iv) the Modified Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that (i) the pledge under the Share Pledge Agreement is required to be registered with the local administration bureau for industry and commerce, (ii) the exercise of the option by Chengdu Qicheng WFOE or its designee of its rights under the Exclusive Option Agreement to acquire all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu is subject to the approvals of, filing with and/or registrations with PRC governmental authorities and (iii) any arbitral awards or foreign rulings and/or judgements in relation to the performance of the Modified Contractual Arrangements are subject to applications to competent PRC courts for recognition and enforcement;
- (v) the Modified Contractual Arrangements are not in violation of applicable PRC laws and regulations, and each of the agreements underlying the Modified Contractual Arrangements, individually and as a whole, will be effective, legal, valid and binding on the parties thereto under the PRC laws and regulations currently in force, except that the Modified Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of our Consolidated Affiliated Entities, injunctive relief and/or winding up of our Consolidated Affiliated Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our Consolidated Affiliated Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and

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- (vi) the Modified Contractual Arrangements do not, individually or collectively, constitute a breach of Article 52 of the PRC Contract Law and will not be deemed invalid or ineffective. In particular, the Modified Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form”.

Based on the above advice from our PRC Legal Advisor, the Directors are of the view that the adoption of the Modified Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

BACKGROUND OF THE 2019 FIL

On March 15, 2019, the National People’s Congress approved the 2019 FIL, which will become effective on January 1, 2020. The 2019 FIL is the fundamental law governing the foreign investment in the PRC, which will replace the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》).

Impact and Potential Consequences of the 2019 FIL on our Modified Contractual Arrangements

The 2019 FIL defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations (“**Foreign Investor(s)**”), and specifically stipulates four forms of investment activities as foreign investment, namely, (a) establishment of a foreign invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licences and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. Although the 2019 FIL stipulates four forms of investment activities as foreign investment, the 2019 FIL does not explicitly stipulate contractual arrangements as a form of foreign investment.

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Notwithstanding the above, the 2019 FIL stipulates that foreign investment shall include “investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council”. Therefore, the following matters remain uncertain: (i) whether future laws, administrative regulations or provisions of the State Council may further stipulate that contractual arrangements would constitute foreign investment and be examined, (ii) whether our Modified Contractual Arrangements will be recognized as foreign investment, and (iii) whether our Modified Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Modified Contractual Arrangements will be handled.

Our PRC Legal Advisor is of the view that given the 2019 FIL has not explicitly prohibited or restricted contractual arrangements with respect to a foreign restricted business, and if there are no future promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of, or affecting the legality of, contractual arrangements, the validity of our Modified Contractual Arrangements will not be affected.

The Potential Impact to Our Company in the Worst Scenario pursuant to the 2019 FIL that the Modified Contractual Arrangements Are Treated as a Foreign Investment

If the operation of the Relevant Businesses is not in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (外商投資准入特別管理措施(負面清單) (as amended from time to time) and our Group can legally operate the Relevant Businesses and/or hold the VATS Licences under PRC laws, Chengdu Qicheng WFOE will exercise the option under the Exclusive Option Agreement to acquire the equity interest in and/or the relevant assets of Chengdu Tianfu and unwind the Modified Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of the Relevant Businesses is in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (外商投資准入特別管理措施(負面清單) (as amended from time to time), the Modified Contractual Arrangements may be viewed as restricted foreign investment. In the worst scenario, the Modified Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group would not be able to operate our Consolidated Affiliated Entities through the Modified Contractual Arrangements and we would lose our rights to receive the economic benefits of our Consolidated Affiliated Entities. As a result, the financial results of our Consolidated Affiliated Entities would no longer be combined into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely that the future laws, administrative regulations or provisions prescribed by the State Council will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

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However, there is no guarantee that our Modified Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future.

Compliance with the Modified Contractual Arrangements

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Modified Contractual Arrangements and our compliance with the Modified Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Modified Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
2. our Board will review the overall performance of and compliance with the Modified Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Modified Contractual Arrangements in our annual reports; and
4. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Modified Contractual Arrangements, review the legal compliance of Chengdu Qicheng WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Modified Contractual Arrangements.

In addition, notwithstanding that our executive Directors, namely Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, are also the Registered Shareholders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the [REDACTED] under the following measures:

1. the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
2. each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;

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3. we have appointed three independent non-executive Directors, comprising over one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
4. we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

Accounting Aspects of the Modified Contractual Arrangements

Consolidation of Financial Results of Chengdu Tianfu and its subsidiaries

Under the Exclusive Services Agreement entered into by and among Chengdu Qicheng WFOE, Chengdu Tianfu and its subsidiary entities as described therein which include our Consolidated Affiliated Entities and the Registered Shareholders, it was agreed that, in consideration of the services provided by Chengdu Qicheng WFOE or its designated third party, our Consolidated Affiliated Entities will pay service fees to Chengdu Qicheng WFOE or its designated third party. The service fees are equal to total revenue deducting the relevant costs, fees, tax expenses and reserved funds as required by applicable PRC laws and regulations. The Consolidated Affiliated Entities shall deliver to Chengdu Qicheng WFOE their respective management accounts and operating statistics periodically as requested by Chengdu Qicheng WFOE. Accordingly, Chengdu Qicheng WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefits of our Consolidated Affiliated Entities through the Exclusive Services Agreement.

In addition, under the Exclusive Option Agreement, Chengdu Qicheng WFOE could receive dividends or any other amounts to the shareholders of our Consolidated Affiliated Entities from the shareholders of our Consolidated Affiliated Entities unconditionally and at nil consideration.

Further, under the Powers of Attorney, Chengdu Qicheng WFOE or any person designated by Chengdu Qicheng WFOE assumes all rights as a shareholder and exercises control over our Consolidated Affiliated Entities, including the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the directors, general managers and other senior management members of our Consolidated Affiliated Entities. As a result of the Modified Contractual Arrangements, we have obtained the right to exercise power over our Consolidated Affiliated Entities through Chengdu Qicheng WFOE and, under our sole discretion, can receive substantially all of the variable economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of our Company and their results of operations, assets and liabilities, and cash flows are consolidated into our financial statements. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in note 2.2.1 to the Accountant's Report set out in Appendix I to this document.

BUSINESS

OUR VISION AND CORE VALUE

Our vision is to become a worldwide leader in HR solutions. We strive to re-engineer the traditional HR services through technology innovation and provide world-class flexible staffing services at a large scale within a short timeframe so that our clients can focus on growing their business and effectively adjust talent deployment to match their growth needs. This positions us as a key partner to our clients, who rely on our professional knowledge and highly developed technological ecosystem to resolve HR issues. At the core of our business, we leverage our integrated HR ecosystem, unique O2O business model and know-how to seek out the potential and value of individual talent, and allow us to offer high quality, quick and results-driven HR solutions to our clients.

OVERVIEW

We are a fast growing pioneer in HR solutions in China, operating on the largest scale in terms of number of flexible staffing employees hired by the end of 2018 and revenue generated from flexible staffing services in 2018. We focus on servicing renowned rising Chinese companies, including a large number of fast-growing new economy companies and industry-leading corporates as our recurring client base. Our ability to identify and work closely with these renowned rising companies at an early stage has allowed us to grow together with them and achieve significant growth during the Track Record Period. We are the leading flexible staffing service provider with the only self-developed O2O recruitment platform in China as of June 30, 2019, according to CIC. We have a strong service network in China covering clients in more than 150 cities, and operating more than 20 offices as of the Latest Practicable Date.

As demonstrated by our operating data during the Track Record Period, we have delivered significant and growing value for many of our clients.

					For the six months ended/As of June 30,	
	2016	2017	2018	2016-18 CAGR	2018	2019
Total Revenue (RMB'000)	376,288	776,247	1,615,891	107.2%	659,026	1,077,361
Number of candidates ⁽¹⁾	247,627	776,482	1,373,639	135.5%	1,035,778	1,728,473
Number of flexible staffing employees	4,427	13,559	19,464	109.7%	19,464	20,156
Average number of flexible staffing employees ⁽³⁾	—	8,993	16,512	—	16,511	19,810
Number of clients	2,781	3,697	3,593	13.7% ⁽²⁾	2,787	3,247

Notes:

- (1) Candidates are registered individual users who identified themselves as job applicants when they registered at our Xiang Recruitment Platform.

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- (2) The slower growth in the number of clients compared to the significant increase in the number of flexible staffing employees was mainly because of our targeted sales approach which focused on deepening the relationship with existing clients and increasing cross-selling and number of contract employees deployed.
- (3) The average number of flexible staffing employees for a year/period, calculated by adding the number of flexible staffing employees at the end of a given year/period with the number of flexible staffing employees at the end of the previous year/period then divided by two.

Labor market dynamics are essentially impacted by political and economic developments, particularly in emerging markets like China. Ongoing developments such as globalization, economic openness, emergence of new economy business models and changes in labor regulations can profoundly impact the working environment in which we and our clients operate. In addition, the workforce requirements in an organization may not be the same in a few years' time, and enterprises increasingly value flexibility and agility to stay competitive in the rapidly changing world. Hence, flexible staffing services, which is our core business, have become an important source of competitive advantage to enterprises and there is a proportional increase in such services in China, which is still at an emerging level as compared to the US, European Union and Japan, according to CIC. Flexible staffing services can enable enterprises to manage their staffing needs in a flexible way, making it possible to manage peaks and troughs in demand. This trend is particularly relevant to: (i) emerging new economy companies who often need to recruit a large number of employees spreading across the nation in a short period of time, but lack the expertise to accomplish such initiatives and the capability to manage their staff; and (ii) companies that require streamlining of their staffing costs and increased flexibility during economic downturns.

Our flexible staffing HR solutions involve staffing and managing the whole of a labor-intensive activity for our clients, allowing them to focus on developing their own core business. We strive to customize our flexible staffing services through technology and innovation, creating a vibrant, trusted and efficient ecosystem that maximizes growth potential by transacting most activities such as candidate search and screening, interviews, placement offers, as well as payroll and administration within our fully integrated HR ecosystem.

During the Track Record Period, we helped a large number of clients find suitable talents in a competitive market in the most efficient manner, and we believe these services will remain in high demand. At the same time, we have over 1,720,000 potential candidates in our system, the majority of which are between the age of 18 to 28. We also strive to help these young candidates find a desirable job to develop their career. As a fast growing pioneer in HR solutions in China, we operate and manage our business primarily in three segments, which are distinct yet highly complementary to each other, namely, (i) flexible staffing — our core business segment; (ii) professional recruitment — comprising recruitment services and paid membership; and (iii) other HR solutions — comprising BPO services, corporate training services, labor dispatch services and other miscellaneous services.

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Technology is our key to reinvent traditional HR services business processes and operate at high efficiency. Our technology and data driven platform allows our clients to access our system to operate all our flexible staffing services, from candidate-searching, to placement, and eventually to staff management and real-time information monitoring. We also provide the option to link our system with our client’s existing HR data base to increase efficiency of their administrative functions. Digitizing our business processes allows us to reduce our cost-to-serve, increases our capital efficiency and improves our operating margin when we hit critical mass. We believe that we have created a meaningful differentiation versus traditional HR services providers by integrating more technology and digital solutions into our service offerings.

We are positioned to remain at the forefront of the emerging flexible staffing services industry, expanding our market share rapidly over time. While there are HR technologies available in the market, we differentiate our business by leveraging our expertise and putting it into implementation for the benefit of our clients and candidates. We have solid knowledge of our Chinese clients’ needs combined with broad knowledge of complex labor regulations in the PRC. We also provide fast recruitment and professional one-stop HR solutions to clients which have become the cornerstone of our significant business development and ability to win contracts from renowned rising Chinese companies during the Track Record Period. According to CIC, our market share was 1.5% in terms of number of flexible staffing employees by the end of 2018, and we believe that there is significant room for growth given the emerging expansion in the industry and the highly fragmented market.

We achieved strong financial performance during the Track Record Period. Our total revenue grew from approximately RMB376.3 million in 2016 to approximately RMB776.2 million in 2017 and further to approximately RMB1,615.9 million in 2018, representing a CAGR of 107.2%, substantially higher than the HR services industry revenue CAGR growth of 21.1% during the same period, while our total revenue grew from approximately RMB659.0 million for the six months ended June 30, 2018 to approximately RMB1,077.4 million for the six months ended June 30, 2019. Our operating (loss)/profit improved significantly from a loss of RMB42.4 million in 2016 to a profit of RMB13.4 million in 2017, and further to a profit of RMB57.5 million in 2018, and it also improved from a profit of RMB21.6 million for the six months ended June 30, 2018 to a profit of RMB57.8 million for the six months ended June 30, 2019. However, due to the accounting treatment of our fair value loss of hybrid instrument from a loss of approximately RMB1.9 million in 2016 to a loss of approximately RMB53.9 million in 2017, further to a loss of approximately RMB196.5 million in 2018, and from a loss of approximately RMB0.5 million for the six months ended June 30, 2018 to a loss of RMB277.8 million for the six months ended June 30, 2019, we had incurred net losses of RMB35.4 million, RMB44.0 million, RMB136.9 million and RMB229.2 million, respectively, in 2016, 2017, 2018, and in the first half of 2019. Please refer to the section headed “Financial Information — Significant Accounting Policies” in this document for further details.

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OUR STRENGTHS

We believe that the following key competitive strengths contribute to our business growth and differentiate us from our competitors:

HR solutions pioneer providing the largest scale of flexible staffing services and other complementary HR services

We are a fast growing pioneer in HR solutions in China, operating on the largest scale in terms of the number of flexible staffing employees hired by the end of 2018, accounting for a 1.5% market share, according to CIC. As of June 30, 2019, we had over 20,100 flexible staffing employees. We were also the largest company operating in China’s flexible staffing services market by revenue in 2018, accounting for a 2.5% market share in a highly fragmented market.

Our results-driven, integrated HR solutions business model allows us to provide innovative and customized solutions to our clients with staffing needs in a flexible way, helping our clients to manage peaks and troughs in demand. We strategically focus on serving clients from the emerging new economy industries with mass staffing needs under tight time constraints, as well as clients from financial services sectors with recurring contracts providing flexible staffing services and complementary HR services. As of June 30, 2019, we managed more than 25,500 contract employees under our flexible staffing services and other HR solutions namely, BPO services and labor dispatch services.

We are the leading flexible staffing services provider in China with the only self-developed O2O recruitment platform in flexible staffing market as of June 30, 2019, according to CIC. This innovative O2O business model enables us to convert online traffic into an offline recruitment process, and offers result-oriented recruitment services with a high conversion rate and a short lead time. Traditionally, flexible staffing providers would recruit flexible staff or contact candidates using self-owned or third-party database by phone or by subcontracting it to other third parties, which lacked efficiency and precision in terms of job position and candidate matching. Our Xiang Recruitment Platform reached over 1.8 million registered individual users with approximately 141,000 average monthly active users and more than 17,800 average daily visits for the first half of 2019, providing a stable candidate pool for talent acquisition and creating synergies with our flexible staffing services.

We are a frontrunner in the emerging flexible staffing services industry, expanding our nationwide network and market share rapidly over time. We launched our Company in 2010 in Chengdu, a strategic location with an abundance of quality labor resources undergoing rapid growth, and a need to match this labor pool with expanding companies. We subsequently established offices in Beijing, Shanghai, Guangzhou and Shenzhen, as part of our aim to expand and establish our presence in first-tier cities in China, which have dense population and robust economic growth. Currently headquartered in Chengdu, we provide our services to clients in 30 provinces and more than 150 cities across China, enabling us to achieve national linkage and cross-region talent transfer. Our strong domestic service network has established us as one of the early movers in the industry and positioned us to benefit from the significant growth of China’s HR solutions market.

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Strategic HR solutions provider for renowned rising Chinese companies

We focus on servicing renowned rising Chinese companies as our recurring client base. Our results-driven approach and fast execution of tailored HR solutions in mass quantities enable us to win contracts from a large number of fast-growing unicorn companies, and new economy and industry-leading corporates as our clients. Some of our unicorn clients include ByteDance, Mobike and Xiaohongshu. We also provide flexible staffing services, professional recruitment services and other HR services to other new economy and industry-leading players, such as Tencent, NetEase, Ping An Financial Chengdu, Vanke Wuhan, DHL Chengdu, SPD Bank credit card center, Qunar, Allianz Chengdu, iKang Healthcare Guangzhou, Vienna Hotel and Lychee FM. We have established strong relationships with our clients and have an average of approximately three years of cooperation with our top 25 clients in 2019.

Out of the 164 unicorn companies in China in the 2017 Development Report of Chinese Unicorn Companies (2017中國獨角獸企業發展報告), 69 or 42.1% of them were our clients during the Track Record Period, according to CIC. As of December 31, 2016, 2017 and 2018, and June 30, 2019, we had served 28, 45, 39 and 48 unicorn companies (some of which are also in the new economy industries) as our clients, respectively, which accounted for approximately 10.4%, 34.5%, 49.8% and 55.0% of our total revenue generated during the same periods. Our ability to identify and work closely with these renowned and rising companies at an early stage has allowed us to grow together with them and achieve significant revenue growth of CAGR of 118.5% from flexible staffing services from 2016 to 2018. According to CIC, we were the fastest growing flexible staffing services provider out of the top five players in China in terms of 2016-18 CAGR of revenue generated from flexible staffing services, largely driven by the booming demand from our clients in the new economy and unicorn companies.

Our deep insights and extensive experience in the HR services industry and business landscape in China have positioned us as an industry leader, allowed us to proactively build relationship with prospective clients from the new economy and other sectors, and provided us with first-mover advantages.

Our comprehensive services offerings, together with our trusted brand and industry expertise, have led to higher client satisfaction, retention and stickiness, which is reflected in the high renewal rate of our clients. Many of our clients have renewed their contracts with us or engaged us for additional projects or services. We have maintained a renewal rate of 100% for clients with an aggregated transaction amount of over RMB1.0 million during the Track Record Period. We have also generated incremental revenue from our existing clients through our scalable business model, which enables us to integrate our resources, achieve economies of scale and lower our operating costs. In 2018, approximately 68% of our revenue were generated from our recurring clients.

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Our brand reputation and recognition among our clients has enabled us to enjoy significant historical growth as well as strong future prospects. We have established a great reputation for reliability and excellent service in the industry, according to CIC. This has helped us attract new client and also has reduced our marketing expenses. As a service provider’s reputation and quality and comprehensiveness of services influence the rate of service premium charged, our strong reputation and high-quality services position us well to grow our revenues and profitability. For instance, the service premium pricing of our flexible staffing projects was approximately 11.1% of the total service fees during the Track Record Period, or a markup of approximately 12.5% of total labor costs, both of which are generally higher than the industry averages for comparable job positions at approximately 8.5% (excluding VAT) of the total service fees as service premium or a markup of approximately 9.3% (excluding VAT) of total labor costs, according to CIC. We believe our reliability and professional and result-driven services reduce the overall HR costs for our clients.

Innovative solutions to reinvent the traditional HR services business processes

Digitalization, big data and data analytics are transforming the HR services industry from a branch-based delivery to a combination of online and offline models. More efficient digital models create opportunities for us to provide innovative solutions in locations and for job roles that were previously not well served, as well as broaden the way we serve our clients and candidates. This also enables our clients to flexibly manage their workforces and candidates to flexibly manage their career.

Technology is our key to reinvent traditional HR services business processes and operate at high efficiency. Our technology and data driven platform allows our clients to access our system to operate all our flexible staffing services, from candidate-searching, to placement, and eventually to staff management and real-time information monitoring. This helps our clients efficiently manage their staffing needs and allows them to nimbly staff up or down based on the workload at any given time regardless of industry size and business. We also provide the option to link our system with our client’s existing HR data base to increase efficiency of their administrative functions. Digitizing our processes allows us to be more efficient in our day-to-day operations while increasing our capital efficiency and improving our operating margin. We believe that we have created meaningful differentiation versus traditional competitors by integrating more technology and digital solutions into our service offerings.

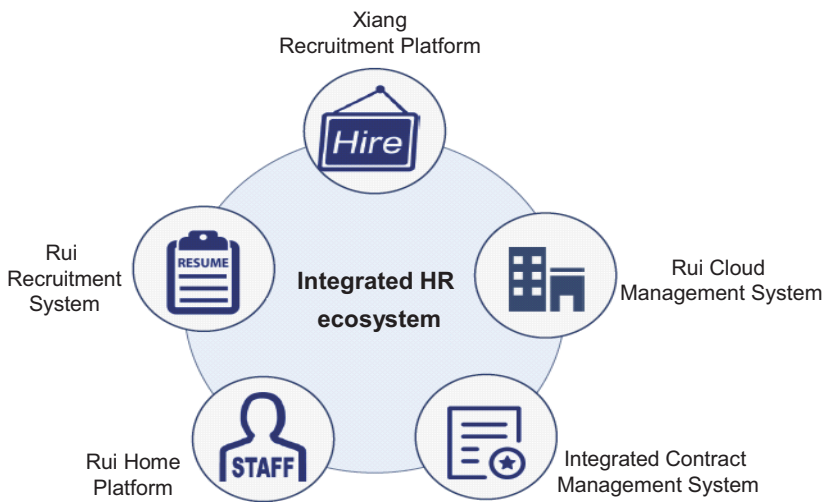
Our overall recruitment efficiency is improved by our innovative digitalized solutions. The average conversion rate from initial application to interview for our competitors ranges from around 5% to 15% whereas our application to interview conversion rate is over 50%, according to CIC. Our conversion rate from offer to on-boarding is above 40%. Instead of competing using lower prices, we win clients with our ability to complete recruitment processes within 24 hours for our clients that have urgent staffing needs. This allows us to attract and expand our unicorn and large corporate and financial institution client base by optimizing and speeding up the hiring process while catering to client needs. We believe our results-oriented pricing model, which only charges our clients upon successful placement or completion of project, is more attractive to clients than our competitors who mainly charge advertising fees for publishing job vacancies.

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By leveraging our fully digitalized and synchronized HR big data, we are able to deploy big data driven technology to analyze registered individual user’s data, classify and label such information, and match job candidates with the right career opportunities, as well as to recommend appropriate candidates to our clients. The majority of the candidates seeking job opportunities through our platform are between the age of 18 to 28. We strive to help these young candidates find a desirable job to develop their career. For our candidates, we recommend relevant positions in accordance with their needs and preferences regarding job functions, salary, work location, social benefits, and behavioral data. After candidates are identified, our project managers or candidate relationship managers send out interview invitations to suitable candidates, and arrange interviews based on the results of intelligent matching, resume generating and talent recommendation. We regularly update data from both our candidates and our clients to optimize our algorithm and continuously improve the accuracy and success rate of job matching and predicting user intention. Empowered by our placement mapping solutions and fully integrated search and match capabilities, we are able to improve speed and quality of our services and enhance clients and candidates experience.

Fully integrated HR ecosystem, enabling close connection among our clients, employees and candidates

Our fully integrated HR ecosystem comprises Xiang Recruitment Platform, Rui Recruitment System, Rui Home Platform, Rui Cloud Management System and the Integrated Contract Management System. These online systems and platforms enable inter-platform interaction, as well as improve hiring and overall efficiency. They play a vital part in supporting the entire HR services industry value chain ranging from position advertisements, front-end recruitment, induction and onboarding, back-end personnel management and other HR functions, such as employee data storage, management payroll and resignations.



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Through our integrated HR ecosystem, we provide our clients with various options to interact with potential candidates through our Xiang Recruitment Platform. At the same time, our Rui Cloud Management System interchanges information and data with other systems and platforms on a real-time basis so that our clients and our own employees can track unfilled job positions and take corresponding actions appropriately. Our integrated HR ecosystem with fully digitalized operational data, information and analytical reports allow us to have a deep understanding of the development, performance and market position of our business by reference to the key performance indicators measured, which in turn enables us to envisage what needs to be done to improve our business operation and also improve the quality of service provided to our clients. We offer our flexible staffing services clients access to our integrated HR ecosystem, which is free of charge and allows real-time monitoring and data analysis of deployed flexible staffing employees, and other back-office functions, such as generating reports, approving leave and managing payroll.

As of June 30, 2019, we have accumulated real-time data and information on over 1,720,000 potential candidates, over 25,500 contract employees and more than 39,000 contracts including client contracts, employment contracts, and supplier contracts, all of which are digitalized and electronically managed and stored by category within our easy-to-use integrated HR ecosystem. These standardized and streamlined information and data are highly scalable, with additional information being added to the system over time, which supports the expansion of our businesses and we believe positions us to grow at an industry-leading speed for a sustained period of time.

We have a dedicated team of engineers and technicians to monitor, maintain, and upgrade our proprietary systems and platforms. Our in-house team has the ability to keep our integrated HR ecosystem updated, with an efficient feedback loop for adjustments and innovation. We believe our proprietary IT system is difficult for our competitors to replicate. With application of our proprietary technologies, we were able to improve the efficiency of matching jobs and talent enabling the recruitment process to become more convenient and effective.

Visionary and seasoned management with proven track record of growth in the HR industry

We have an experienced senior management team with a proven record of driving prominent growth and profitability. One of our founders, an executive Director and the Chairman and Chief Executive Officer of our Group, Mr. JG Zhang, is a well-recognized visionary pioneer in the HR services industry with over 20 years of experience. He was named as one of the Top Ten Persons of the Year of the PRC HR services industry in 2018 (2018中國人力資源服務業年度十大人物) and also received the 2019 Asia-Pacific Human Resources Development and Service Fair Most Influential Award (2019亞太人力資源開發與服務博覽會最具影響力獎) in recognition of his achievement in the HR industry in China. Mr. JG Zhang's industry insights and reputation have led us to capture a frontrunner position in China's HR industry. Mr. JG Zhang brings a wealth of experience from his previous tenure as the vice president at Huawei HR division, where he was responsible for overseeing HR matters, and ChinaHR.com (中華英才網), where he held the CEO position from July 2004 to January 2009, where he was responsible for overall management. Mr. JG Zhang was an author of numerous

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publications, including Compensation System Design (《薪酬體系設計》), Performance System Design (《績效體系設計》), Professional Process Design (《職業化進程設計》), Flexible Employment (《靈活用工—人才為我所有到為我所用》), Manager’s Thought — Winning in Strategic Human Resource Management (《經營者思維—贏在戰略人力資源管理》) and a white paper on the development of flexible staffing in China. He has also been invited to speak at various industry conferences and symposiums on the topics of the HR services market and flexible staffing.

Mr. F Zhang has more than 18 years of experience in the HR management sector and have contributed valuable skills and experience of running critical HR functions and projects in HR industry in China. Before co-founding our Group, Mr. F Zhang served in various senior management positions, including as a regional general manager at ChinaHR.com (中華英才網), from August 2004 to June 2011, where he was responsible for overseeing sales, operation and management. From July 2000 to August 2004, he held various positions at Datang Telecom Technology Co., Ltd (大唐電信科技股份有限公司), a telecommunications equipment company, and he served as the HR manager before his departure, where he was responsible for HR management.

Ms. JM Zhang brings with her more than 16 years of experience in the HR management sector. Prior to co-founding our Group, Ms. JM Zhang worked as a vice general manager of the Western region of China and a general manager of the Chengdu subsidiary of ChinaHR.com (中華英才網), from July 2004 to March 2011, where she was responsible for the operation and management of its business in the Western region of China. From August 2002 to July 2004, she worked as a vice general manager of the Chengdu subsidiary of Times Bright China (時代光華), a company in the education and training industry, where she was responsible for the operation and management of its Chengdu subsidiary.

Our senior management strives to create an ambitious, aspiring and hard-working culture. They have led our Group to significant business growth and through multiple milestones, and have cultivated a corporate environment that encourages innovation, adaptability and use of technology which firmly rooted in our culture and humanities value. Guided by our company culture, our senior management leads our team of professionals in unlocking the potential and value of individual talent which enables us to provide efficient and effective HR solutions on a large scale.

OUR STRATEGIES

We intend to maintain and continuously strengthen our position as one of the leading providers of HR solutions in China. To achieve this goal, we plan to pursue the following business strategies:

Increase our revenues by diversifying and expanding our client base

Diversifying our client base is crucial for our future expansion. We plan to grow and diversify our client base and to increase business generated from existing clients in the under-served yet fast-growing TMT and financial services sectors by leveraging our existing service offerings and set up team and management system appropriate for these industries in

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order to fulfil the staffing needs of these clients and provide high-quality HR solutions. We will also market our value-added HR services to our existing clients to strengthen cooperation and to explore new clients, with aim to become their largest or, exclusive HR services provider. We will expand our headhunting and BPO services in the near future and market our professional recruitment capabilities in senior level recruitment.

We also intend to expand our flexible staffing services coverage by (i) increasing the number of flexible staffing employees deployed to our existing clients, and (ii) tapping clients in other industry sectors where we do not yet have a strong presence, such as those in the “new retail” sector, where the focus is on integrated online presence, offline retail experience and logistics network. This sector is growing rapidly and experiencing a high demand for employees to support this growth, and in particular for positions where our flexible staffing expertise and capabilities would be desirable. We plan to set up a dedicated recruitment team and tailor our technical systems to enhance our service capabilities to develop and support potential clients in these industries.

Continue innovation to strengthen our system, platform, AI and data mining technologies

We plan to invest in R&D, specifically, to strengthen AI and data mining technologies, including machine learning, data analytics, and AI interview technologies, as we anticipate that improvements in these areas will significantly improve our hiring efficiency and thus lead to better services and lower costs for our clients. We intend to enhance our recommendation and matching algorithm so that we can leverage our big data assets to develop better assessments and address the evolving demands of our clients.

We also seek to enhance and increase the functionality, features and user experience of our systems and O2O recruitment platform, across the corporate-end, job applicant-end and the employee-end. In addition, we intend to continue to accumulate big data from existing and new online users, and intend to leverage technology to provide more tailored, wide-ranging, and accurate services to all such participants.

Continue to expand market coverage in China and globally

We intend to continue expanding our nationwide coverage to serve more clients in the Central China region, with a focus around Changsha, Jinan and other cities where we do not have our own offices but demand for HR services is growing at a significant rate.

We also plan to expand to international markets with our existing clients who have international expansion needs. We plan to set up a dedicated team to serve strategic clients of domestic services who intend to, and have requested, services internationally.

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In line with this expansion strategy, which aligned with China’s one belt one road initiative, as of the Latest Practicable Date, we have entered into agreements with two existing client groups to provide recruitment services and BPO services to them in India, under which we will recommend candidates to be hired by the client, or arrange for contract employees hired by a third-party to perform BPO services outsourced to us by the clients, which are mainly information verification tasks. We have also entered into agreements with a third-party consultant with operations in India to source and recommend candidates to us based on requirements we provide. We also outsource provision of the BPO services to this third-party consultant, who is responsible for hiring and maintaining an appropriate number of contract employees on its payroll in order to fulfil the tasks assigned by our client.

Expand our value-added services and improve our user experience

We intend to continue to deliver fast, superior, comprehensive and tailor-made solutions to our clients. We are constantly testing new features to improve user experience and expand our value-added services, including further development and added features to Xiang Recruitment App. For instance, we are planning to create a knowledge sharing platform utilizing the wealth of knowledge we accumulated from HR services industry and having guest speakers to provide online training courses and consulting services. We also plan to collaborate with small to mid-size recruitment firms to improve and shorten project delivery time for our clients.

In addition, we plan to strengthen our value-added services through our integrated HR ecosystem. For instance, we have recently introduced several social networking functions such as Xiami Video (蝦米視頻) and internal referral portals such as Bole Ge (伯樂閣) to Rui Home Platform to enhance stickiness of our contract employees. We are also planning to roll out new programs such as a free-of-charge E-learning platform to further encourage engagement of our contract employees.

Continue to strengthen our industry-leading position and brand recognition

We seek to further enhance our brand through diversified channels. We plan to increase the exposure of our brand and expand our talent pool through various marketing channels, including cooperation with other well-known brands and through our internal referral system.

We plan to further strengthen our competitiveness by selectively pursuing strategic alliances, investments and acquisitions. We believe the target businesses include businesses that are located in China and have a client base that is distinctive from us or sector expertise that are complementary to our current business, with similar corporate culture, strong compliance history and strong capabilities in data process and analysis, which can provide us with additional user acquisition channels, create synergy with our integrated HR ecosystem and improve our user stickiness efforts. As of the Latest Practicable Date, we had not proposed to invest in any specific acquisition target or identified any such targets for the use of net [REDACTED] from the [REDACTED]. Please refer to the section headed “Future Plans and Use of [REDACTED] — Use of [REDACTED]” in this document for further details.

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OUR BUSINESS AND OPERATIONS

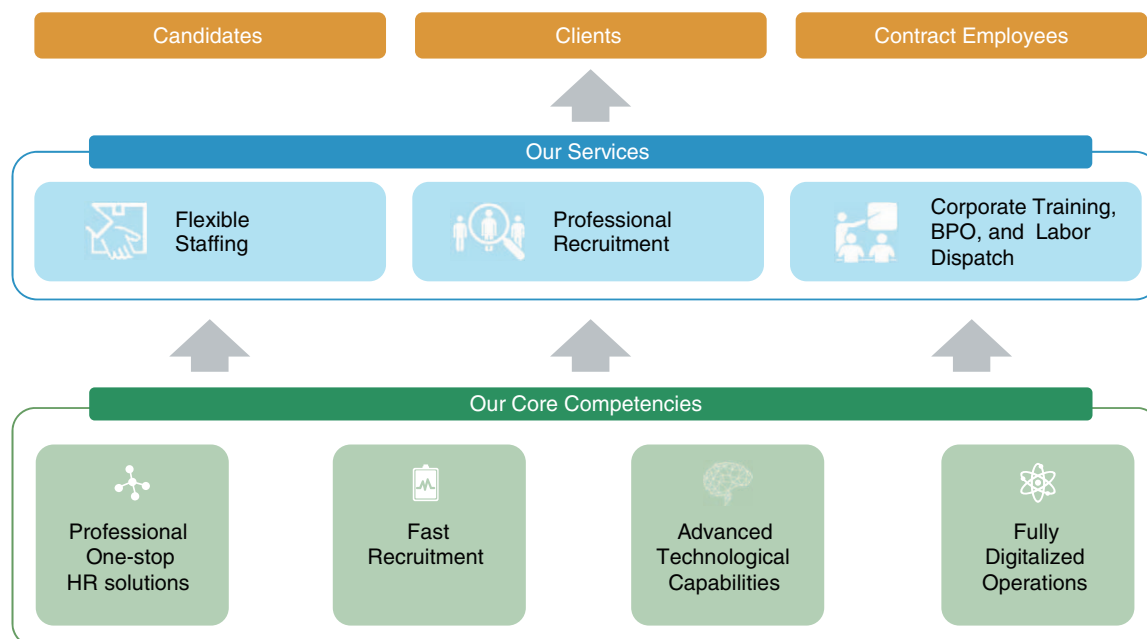
Our Business Model

We are the largest flexible staffing services provider in China in terms of the number of flexible staffing employees hired by the end of 2018 and revenue generated from flexible staffing services in 2018, according to CIC. We are well-known for providing flexible staffing services for low to mid-level positions such as receptionists, secretaries, client service representatives, information verification clerks, and sales and service clerks, as well as IT R&D personnel for mid to high-level positions, with a particular focus on new economy and emerging industries and Chinese unicorns. We generated approximately 65.3%, 81.4%, 81.7% and 82.7% of our total revenue for the years ended December 31, 2016, 2017, 2018 and the six months ended June 30, 2019, respectively, from our clients in the new economy industries in the PRC who created considerable demand for our services to meet their fast-growing businesses. During the Track Record Period, we generated approximately RMB300.5 million, RMB670.3 million, RMB1,411.6 million and RMB942.1 million by providing flexible staffing services to our clients filling low to mid-level positions in 2016, 2017, 2018 and the six months ended June 30, 2019, respectively, which accounted for approximately 94.7%, 94.9%, 93.2% and 92.0% of total revenue generated from our flexible staffing services in the same periods, respectively. In terms of flexible staffing for low to mid-level positions, the market size increased from RMB17.8 billion in 2014 to RMB44.5 billion in 2018, representing a CAGR of 25.7%. It is expected to further expand to RMB129.1 billion in 2023, with a CAGR of 23.7% between 2018 and 2023. The demand-to-supply ratio of job vacancies available for low to mid-level positions increased from 1.07 in the last quarter of 2013 to 1.23 in the last quarter of 2018, indicating an uptrend of talent supply shortage for low to mid-level positions, according to CIC. Supported by our industry-leading technology and integrated HR ecosystem designed to satisfy the demands of our key business operations, we connect candidates with our clients through an innovative O2O approach, with a goal of maximizing job applicants' chances of getting hired, while presenting our clients with a pool of suitable talents to select from.

As all of our operational data is digitalized and electronically-managed and stored, we are able to generate reports and obtain up-to-date information on certain key performance indicators which we have identified as significant. The tracking of these fully digitalized measures and indicators enable our management to understand the progress and movement in our business. Whether operational, financial or non-financial, these key performance indicators make the trends in our business operation transparent and keep our internal employees and management accountable, which in turn contributes to our strong management capabilities to identify and address any potential issues in a timely manner. For example, key performance indicators include project completion rates and new engagements for our sales teams, and performance target achievements and cost effectiveness for our recruitment teams.

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In addition to flexible staffing, we also provide our clients with professional recruitment, BPO, corporate training and labor dispatch services. The following diagram illustrates our comprehensive services as supported by our core competencies.

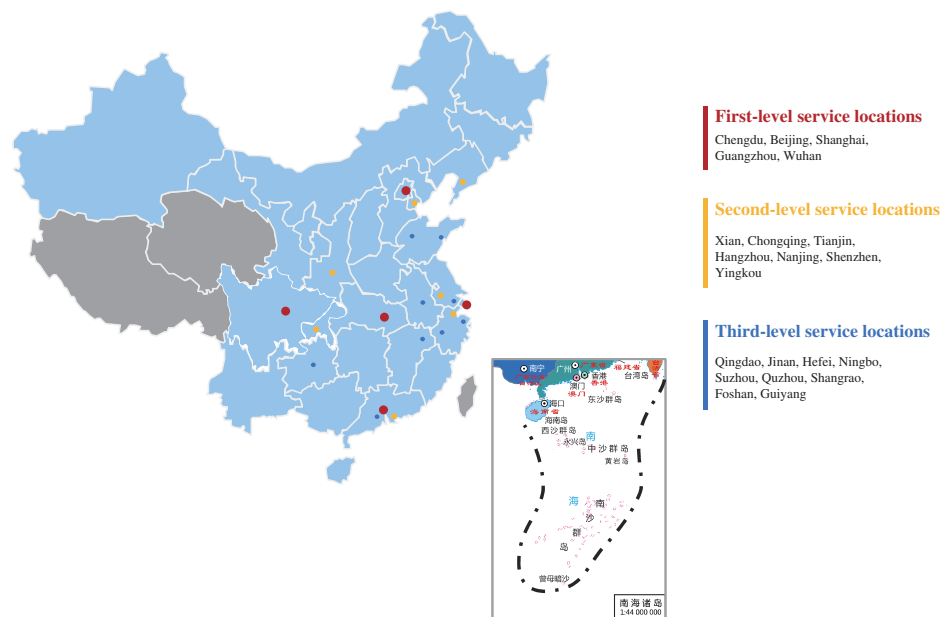


The table below shows the breakdown of revenue generated from our various business segments during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	Revenue	% to total	Revenue	% to total	Revenue	% to total	Revenue	% to total	Revenue	% to total
	(RMB'000)	revenue	(RMB'000)	revenue	(RMB'000)	revenue	(RMB'000)	revenue	(RMB'000)	revenue
(Unaudited)										
Flexible Staffing	317,354	84.3	706,232	91.0	1,514,950	93.7	617,457	93.7	1,023,532	95.0
Professional Recruitment:										
• Recruitment	44,671	11.9	51,291	6.6	62,434	3.9	27,832	4.2	27,824	2.6
• Paid Membership	1,963	0.5	7,354	0.9	5,935	0.4	2,532	0.4	2,398	0.2
Other HR Solutions:										
• BPO	—	—	1,676	0.2	22,964	1.4	7,620	1.2	17,218	1.6
• Corporate Training	2,472	0.7	1,583	0.2	965	0.1	189	0.0	350	0.0
• Labor Dispatch	9,828	2.6	8,111	1.1	8,643	0.5	3,396	0.5	3,797	0.4
• Other miscellaneous services	—	—	—	—	—	—	—	—	2,242	0.2
Total	376,288	100.0	776,247	100.0	1,615,891	100.0	659,026	100.0	1,077,361	100.0

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We have a broad geographic coverage in China, with our headquarters located in Chengdu. As of June 30, 2019, we have a strong domestic service network with five first-level service locations covering five major regional centers, namely, Chengdu, Wuhan, Guangzhou, Shanghai and Beijing, seven second-level service locations with our own branch offices, and nine third-level service locations where we have limited business operations to service the needs of our existing clients. We provide our services to clients in 30 provinces and more than 150 cities across China, which enable us to achieve national linkage and cross-region talent transfer.



Flexible Staffing

The evolving global economy and development of emerging industries and new economy in China has created considerable demand for flexible staffing services from clients who seek variability in operating costs and talent deployment, and who increasingly focus on core competencies while relying on professional service providers who are able to quickly recruit large numbers of candidates for large-scale projects under a tight time schedule, as well as effectively manage turnover rate and labor issues. Guided by our principle of creating additional value “1 + 1 > 2” for our clients, we pride ourselves on our strong capability in offering flexible staffing services that can meet clients’ desire to grow and expand to new markets quickly. Our fast reaction in meeting various staffing demands of our clients allows our clients’ core employees to pursue more focused and complex challenges that are central to their business without being burdened by administrative processes, while tapping the talents of flexible workers to assist with day-to-day operations. Our ability to cover certain aspects of the operations and specific responsibilities of a business process can allow our clients to meet their growth goals while avoiding typical administrative bottlenecks.

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Business Operation

Fast Recruitment

The core of our business is our strong capability to deliver fast and professional flexible staffing solutions to meet large-scale staffing needs through our pioneered O2O business model, leveraging our fast growing talent pool and our big data analytics capability.

Our innovative O2O business model enables us to convert online traffic to our website, our Xiang Recruitment Platform and social media platforms, to offline recruitment process, where candidates and followers of our social media accounts can visit us at our frequent recruitment events and participate in available job interviews. Candidates who learn about our service offline through traditional media such as printed advertisements can also access and apply to new and available job openings at our recruitment events by registering with our Xiang Recruitment Platform.

Our Xiang Recruitment Platform has attracted a large number of active job applicants, and amassed a wide range of up-to-date and multi-dimensional CVs. As of June 30, 2019, there were over 1,720,000 potential candidates who registered and identified as job applicants on our Xiang Recruitment Platform. In 2016, 2017, 2018, and the six months ended June 30, 2019 we had approximately 237,700, 528,900, 597,200 and 354,800 new individual users who registered for an account and identified themselves as job applicants on our Xiang Recruitment Platform, respectively. We keep our Xiang Recruitment Platform updated with visible and desirable opportunities to attract the attention of potential candidates, both by offline promotion such as subway advertising, article publications in well-recognized HR industry magazines and cooperative promotion with colleges and universities, as well as online cooperative advertising with over 20 well-known brands. To remain accessible to job applicants and to shorten recruitment lead time for our clients, we also actively engage the job-seeking communities on social platforms regularly and frequently by announcing job openings and job market trends to our social media followers. As of June 30, 2019, we had approximately 1,682,000 followers from our WeChat and Weibo social media accounts.

During the Track Record Period, we held over 12,800, 11,200, 22,500 and 15,200 recruitment events in 2016, 2017, 2018 and the six months ended June 30, 2019, respectively, resulting in approximately 56,100, 60,300, 66,800 and 36,300 successful placements for all of our business segments for the same periods. Our recruitment events run on a daily basis, seven days a week, and across more than 20 cities in China. On average, more than 1,500 potential candidates participate in these recruitment events every day which contribute to our ability to amass large numbers of CVs and to continue to update and improve our talent pool with candidate personal details, interview results and job preferences. The recruitment events provide a good opportunity for the potential candidates to gain a better understanding of our clients from whom they can choose positions that are more attractive to them, and at the same time, enable our clients to meet with a pool of potential candidates who will be interviewed and notified of the results on the same day. This combination of both online and offline talent sourcing channels enables us to promptly meet the demands of our clients. We sometimes engage third-party agencies to assist in marketing and hosting of recruitment events in order to expand our geographic coverage to match our clients' footprint in cities which are relatively

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new to us. This enables us to make our job hunting service available to more potential candidates in regions where we otherwise have no operation. On rare occasions, we also subcontract to subcontractors to fill specific positions required by our clients, which allows us to maintain a degree of flexibility in our pace of expansion and leverage on the market advantage of certain subcontractor and engage other HR services providers to recruit candidates. For further details on our use of service providers and subcontractors, please refer to “— Our Service Providers and Suppliers” in this section.

As part of our social networking functions on our Rui Home Platform, we also encourage our contract employees to make internal referrals of candidates to job openings. Our HR exchange platform Bole Ge (伯樂閣), an add-on that rewards successful internal referrals available to our contract employees, coupled with other offline modes of referral of candidates, accounted for more than 14% of the total number of contract employees recruited in each of 2018 and the six months ended June 30, 2019. This function has the benefit of higher recruitment rate with lower costs of recruitment.

The typical recruitment process from application to offer acceptance for us to recruit 100 people can be completed within three days while the average lead time for recruiting 100 people for flexible staffing services from application to offer acceptance in the HR services industry is approximately ten days, according to CIC. Instead of competing on prices, we win clients with our ability to complete recruitment process in as short as 24 hours for clients that have urgent staffing needs. This enables us to attract and expand our new economy and large corporate/financial institution client base by optimizing and speeding up the hiring process while catering to client needs. For example, we helped a leading news and information platform company to recruit more than 180 people from application to offer acceptance within three days after signing the contract with such client.

Professional Service

Our professional expertise in flexible staffing services improves the staffing procedure of our clients which in turn lowers the turnover rate. We typically form a project team comprising a group of recruitment specialists and headed by a project manager to execute our clients' projects. To ensure delivery of suitable contract employees in an efficient manner and to achieve low turnover rate after the project is underway, our dedicated project team usually meets with our client several times before the commencement of a project in order to align our work stream with client's expectations, and to ensure we have an accurate understanding of the specific skill set required for the positions to increase the matching probability. Our project teams from different geographical areas can quickly identify potential candidates from our internal database and applicants from social media platforms using our big data analytics technology based on specific experience, industries and functions of the job openings. Our powerful data processing and analysis enable successful matches between job applicants and positions, shorter lead times, timely fulfilment of client's staffing requests in full, higher client and user satisfaction and lower turnover rates.

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During the contractual period, we split our flexible staffing project into four stages to address any concern before it becomes an issue, and to remedy any grievance both from our clients and from our contract employees: recruitment, induction training, onboarding and operation and resignation/departure. We also assign an onsite team to the client’s project who typically assists our clients with (i) onboarding procedure of new contract employees by providing induction sessions on matters such as corporate culture and management style of our client; (ii) maintaining the morale of contract employees by organizing social events, monitoring performance of each contract employee and designing tailored training sessions to improve performance; (iii) monitoring turnover rate of contract employees by conducting regular review meetings with contract employees according to the length of time he or she has been on the flexible staffing assignment and arranging one-on-one exit interviews, engaging in feedback sessions with resigning contract employees and discussing with project managers with respect to reasons of resignation; and (iv) updating information on Rui Home Platform in respect of the project. Our professional service has enabled us to effectively and efficiently deliver large number of contract employees to our clients which meets their business expansion plan while maintaining low turnover rate and thus resulting in business stability. For example, since being engaged in the fourth quarter of 2015, we have supplied an aggregated total of more than 4,900 contract employees to a major Chinese transportation network company in cities across China for its client service representative roles. The recorded turnover rate of this project improved from approximately 17% as of December 31, 2016 to approximately 8% as of December 31, 2017 and further to 5% as of December 31, 2018.

Enabled by the professional services we deliver through our project team, we have a proven track record of maintaining a low turnover rate of contract employees and continuously improving the performance of contract employees.

Personnel Management

We also differentiate ourselves by our effective personnel management. Our integrated HR ecosystem creates a one-stop platform for our flexible staffing services clients to efficiently manage contract employees’ onboarding procedure, performance, attendance, payroll and resignation. For instance, contract employees can complete their onboarding procedures with our clients by submitting verification documents such as personal identity number, mobile number and bank card information through Rui Home Platform and execute employment contract with e-signature. In addition, our clients can deal with contract employees’ leave application or resignation notice online through our systems and platforms, and in turn ensuring seamless substitute and work coverage for ongoing project by notifying our project manager, while keeping these internal processes appropriately recorded and managed offline directly with such contract employee in person with the assistance from our onsite teams.

For contract employees, our Rui Home Platform provides an online sharing community platform, on which the contract employees can engage in timely and effective communication with our internal employees while managing employment related matters and frequently interact with each other. Our contract employees can manage their onboarding procedure, reassignment and resignation through Rui Home Platform. Furthermore, information such as

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salary and social insurance can also be enquired through Rui Home Platform online client service or be addressed by the onsite team assigned to the project. Our comprehensive services to contract employees help increase their sense of belonging and reduce the employee turnover rate.

Project Risk Management

We help our clients improve their labor and employment management and process. We are able to provide cost-effective solutions, and can help businesses reduce risks associated with labor employment, such as work place accidents and cost of recruitment.

Leveraging on our big data analysis capability, we are able to deliver fast, comprehensive and tailor-made staffing services to our clients while lowering the risks associated with employment and reducing overall labor costs of our clients. We effectively increase the productivity of our contract employees by maintaining a low turnover rate. Furthermore, our ability to reassign contract employees to other ongoing projects offer our clients the option to staff their projects based on their operational needs without being burdened with costs typically associated with layoffs.

The table below shows distribution of contract employees deployed under flexible staffing arrangement among the key regions as of the dates indicated:

	As of December 31,						As of June 30,	
	2016		2017		2018		2019	
	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾
North China ⁽²⁾	1,123	25.3	4,014	29.6	2,416	12.4	2,350	11.7
South China ⁽³⁾	512	11.6	2,442	18.0	3,069	15.8	2,800	13.9
East China ⁽⁴⁾	1,186	26.8	2,366	17.4	2,962	15.2	3,403	16.9
West China ⁽⁵⁾	1,606	36.3	3,967	29.3	10,567	54.3	7,071	35.1
Central China ⁽⁶⁾	—	—	770	5.7	450	2.3	4,532	22.5
Total	4,427	100.0	13,559	100.0	19,464	100.0	20,156	100.0

Note:

- (1) Contract employees here refer only to flexible staffing employees.
- (2) Refers to a region which consists of Beijing, Tianjin, Qingdao, Yingkou and Jinan.
- (3) Refers to a region which consists of Guangzhou, Shenzhen and Foshan.
- (4) Refers to a region which consists of Hangzhou, Nanjing, Shanghai, Hefei, Ningbo, Suzhou, Quzhou and Shangrao.
- (5) Refers to a region which consists of Chengdu, Xian, Chongqing and Guiyang.
- (6) Refers to Wuhan.

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We evaluate our operating performance for flexible staffing services by looking at the number of flexible staffing employees we hire and deploy to clients, the turnover rate of our contract employees, as well as the number of clients which continue to enlist our services. Across the geographic locations we covered, we deployed over 4,400, 13,500, 19,400 and 20,100 flexible staffing employees, respectively, and generated approximately RMB317.4 million, RMB706.2 million, RMB1,515.0 million and RMB1,023.5 million from our flexible staffing services in 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. During the same periods, approximately 12.8%, 8.3%, 10.6% and 10.3% of our flexible staffing employees departed or were terminated before the end of the applicable contractual period, respectively. We maintained a renewal rate of 100% for clients with an aggregated transaction amount of over RMB1.0 million during the Track Record Period. In comparison, the industry average was much lower for the number of flexible staffing employees hired and deployed to clients by an average flexible staffing provider as of December 31, 2018 and June 30, 2019 at approximately 130 and 150, respectively, according to CIC. Our performance in terms of turnover rate was also better than the industry average, which was approximately 15% to 20% for flexible staffing employees, according to CIC, for the Track Record Period. The table below sets forth a breakdown of our placements by the type of clients as of the dates indicated:

	As of December 31,						As of June 30,	
	2016		2017		2018		2019	
	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾	Number of Contract Employees ⁽¹⁾	% of Total Contract Employees ⁽¹⁾
New Economy ⁽²⁾	3,281	74.1	11,468	84.6	17,054	87.6	16,718	82.9
Financial Institution	352	8.0	1,396	10.3	1,255	6.4	1,270	6.3
Real Estate	280	6.3	111	0.8	257	1.3	1,010	5.0
Others ⁽³⁾	514	11.6	584	4.3	898	4.6	1,158	5.7
Total	4,427	100.0	13,559	100.0	19,464	100.0	20,156	100.0

Notes:

- (1) Contract employees here refer only to flexible staffing employees.
- (2) New economy generally refers to industries that rely inherently on technological advancements, such as the internet, business services, hardware and software technologies, media and entertainment industries, and traditional industries that are being transformed as a result of innovations, such as retail, healthcare, finance, and new energy industries, according to CIC.
- (3) Others mainly include manufacturing, retail, logistics, food and beverage and construction.

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The table below provides a further breakdown of the type of flexible staffing positions our contract employees filled as of the dates indicated:

Function	As of December 31,						As of June 30,	
	2016		2017		2018		2019	
	Number of Contract Employees ⁽²⁾	% of Total Contract Employees ⁽²⁾	Number of Contract Employees ⁽²⁾	% of Total Contract Employees ⁽²⁾	Number of Contract Employees ⁽²⁾	% of Total Contract Employees ⁽²⁾	Number of Contract Employees ⁽²⁾	% of Total Contract Employees ⁽²⁾
Information verification	—	—	1,868	13.8	8,573	44.0	9,492	47.1
Client service representative	3,051	68.9	4,905	36.2	5,967	30.7	5,397	26.8
Sales and store clerk	946	21.4	2,209	16.3	1,206	6.2	2,101	10.4
IT personnel	190	4.3	237	1.7	591	3.0	552	2.7
Others ⁽¹⁾	240	5.4	4,340	32.0	3,127	16.1	2,614	13.0
Total	4,427	100.0	13,559	100.0	19,464	100.0	20,156	100.0

Notes:

- (1) Others mainly include drivers and chefs.
- (2) Contract employees here refer only to flexible staffing employees.

The number of contract employees we employ during any given year may be subject to fluctuations partly attributable to seasonality in the HR services market and holiday periods such as Chinese New Year. We generally record a lower number of flexible staffing employees during the months of January and February each year, and a subsequent increase in flexible staffing employees after holiday periods in the first quarter of each year. Our Directors believe this is due to a number of flexible staffing employees returning to their home province for the Chinese New Year holidays, which usually falls in the first two months of each calendar year, and subsequently returning to work after the holidays.

Our flexible staffing services contract with our clients typically includes the following salient terms and conditions:

- **Scope of services:** Depending on the nature of positions required to be filled, and typically, the service contract requires us to provide flexible staffing employees according to our clients’ needs.
- **Our obligations:** During the contract period, we are obligated to recruit suitable candidates to meet our clients’ staffing needs. The recruited contract employees will enter into employment contracts with us and we will be responsible for the contract employees as our employees and the risks associated with employment including sick leave, maternity leave and death or injury. We also provide personnel management following the fulfilment of staffing needs to ensure low turnover rate. Our flexible staffing services assist our clients to improve their labor and employment management and process where we are responsible to pay the salaries and employment benefits to, and social insurance and housing provident fund for, our contract employees. In general, during the contractual period, if a contract

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employee cannot meet the requirement of our client, we are obligated to provide further training to such contract employee with the aim to address the issue. Nevertheless, if after such training, the relevant contract employee remains unable to deliver work satisfying the requirement of our client, our client has the option to return the relevant contract employee to us with advance notice and evidence showing the incompetence in question. We generally offer free replacement of contract employee at client's request, for instance, when the contract employees cannot perform according to the service contracts, or when any part of the records of the contract employees, such as personal identification or qualification, contained incorrect information, or if any contract employee is dismissed or terminated before the end of his or her employment contract with us.

- **Fees and payment:** Our clients are usually billed by project on monthly basis for service fees calculated mainly on a per contract employee basis. At each payroll cycle, we bill our clients for labor costs that cover the payroll, any bonuses, overtime pay, social insurance, housing provident fund, disbursements, such as travel expenses and lodging expenses and taxes of the deployed contract employees, plus a pre-agreed premium, or margin, as our total service fees. The labor costs of the Group's flexible staffing employees on a per flexible staffing employee per month basis, including payroll, any bonuses or commission, social insurance and housing provident fund contributions and disbursements, typically ranged from approximately RMB2,600 to RMB67,000 during the Track Record Period, with customer service representative positions at the low end and consultant positions at the high end, especially those that entailed a commission or bonus structure. The range of labor costs for flexible staffing employees varied considerably due to the large variety of positions and industries involved, as well as differences in the compensation structure, nature of work, location, and duration of different flexible staffing positions. The applicable premium is determined by various factors such as costs of recruitment (including time cost), size of the client, turnover rate and nature of such position and skill set of the contract employees. During the Track Record Period, we charged our clients an average premium of approximately 11.1% of the total service fees.
- **Terms of service:** Typically, our contracts for provision of flexible staffing services to our clients are for a term of one to two years, adjustable with mutual consent by parties according to the job openings. Normally, neither party is entitled to terminate the contract unless prior written notice is given, and (i) a liquidated damage is paid; or (ii) the terminating party indemnifies the losses accrued by the other party. Notwithstanding the foregoing, we usually reserve the right to terminate the contractual arrangement with immediate effect if our client fails to make payment to us for a period of time.

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We seek confirmation with our clients as to their expected staffing needs or any changes to the current staffing needs on a regular basis during the contract period so that we can adjust the number of our flexible staffing employees deployed for a particular project accordingly. In addition, in the event of early termination of service contract by our clients, our clients are usually required to give prior written notice, pay us a liquidated damage or indemnify us for our losses, including the salary and social benefits owed to those contract employees on assignment, as well as other administrative costs. During the Track Record Period, only approximately 1% of our total flexible staffing projects was terminated by our clients prior to the end of contract period. Further, we typically do not maintain any unassigned contract employees on our payroll. In some rare occasions where we have unassigned contract employees on our payroll due to unexpected changes to our clients’ staffing needs, we can normally avoid any financial exposure resulting from idle contract employees on our payroll by promptly assigning such contract employees to another project which requires a similar skill set.

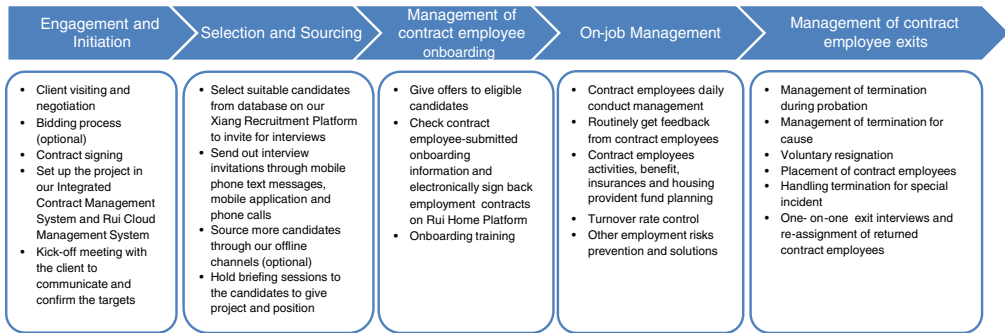
We adopt a standard employment contract with our contract employees to streamline the onboarding procedures and to allow quick deployment of contract employees to our clients. Our contract employees will be deployed to work at venues designated by us as agreed with our clients. The salient terms of contracts with our contract employees mainly comprise place of work, predetermined salary, benefits, duration of employment, job description and termination rights. We adopt standard non-compete clauses which prohibit our contract employees from working for our competitors, inciting other employees to resign or soliciting our clients or suppliers during his/her employment. Our standard employment contract also states that the purpose of the employment is to fulfill the needs of our clients, as such, the agreement may be terminated at our discretion, with prior notice or salary compensation in lieu of notice, if such client no longer requires our services. Compensation and notice period as required by laws and regulations would be observed in such situation. We typically include confidentiality clauses in our contract or a separate non-disclosure agreement for the contract employee to sign, in order to prohibit our contract employee from disclosing any of our client’s confidential information.

Our clients are prohibited from, directly or indirectly, hiring our contract employees for an average of 12 months following the completion of their services, unless we are paid a placement fee, as agreed, in respect of such contract employee.

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Process of our Flexible Staffing Services

The following flow chart is a general overview of the major steps involved in the provision of our flexible staffing services:



Engagement and Initiation

We receive business requests and inquiries about our flexible staffing services from our existing clients. We also proactively approach potential clients that operate in industry or business segment which have substantial fluctuation in their staffing requirement or commonly employ a large number of temporary staff. Once a client is targeted, we will understand and ascertain their requirements, including the type and scope of staffing services required, number of staff needed as well as their budget. After considering our available resources and our ability to meet the clients’ demands, our sales and marketing team will discuss the opportunity with our regional head to come up with a service proposal for the potential client’s consideration. For certain projects, we will participate in public tender process by invitation. Upon acceptance of our service proposal, we will prepare our standard contract for signing.

Upon signing of a service contract, both the executed service contract and the order are entered into our integrated HR ecosystem with relevant details, such as the project manager being assigned to the project, required manpower and duration of the project. Our project managers and senior management can monitor the current status of the relevant projects through our integrated HR ecosystem and regularly be informed of the status of our service delivery.

Selection and Sourcing Talent

Our ability to recruit suitable candidates efficiently is what differentiates us in the market. After being engaged by the client, we will put together a working group and discuss with our client to further grasp the needs and requirements of the client. Subsequently, we will shortlist the potential candidates through a number of sources, such as searching from the talent pool maintained by us and reviewing any contract employees who may need to be reassigned from their current positions. If we cannot fulfill the required staffing needs with our existing resources, we will advertise the job openings on our website, our Xiang Recruitment Platform, other social media platforms, hold recruitment events at our offices, or source suitable candidates through third party HR services providers or selected subcontractors.

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Those candidates that are selected from our talent pool and other sourcing channels must then pass the interview process where the job applicants must adeptly demonstrate their skill sets necessary for the job openings. Upon receiving notification from us about a job opening, job candidate will visit our office at a scheduled time where he or she can sign in and apply for the invited opening or any other interested job openings by registering with our Xiang Recruitment Platform. A detailed briefing session will be given to the job applicants before the interview process so that salary and other job expectations can be properly communicated.

To complete the onboarding procedure, the successful job applicant must complete individual verification procedure by providing required information such as mobile phone number, personal ID and bank card/information for identification purpose, as well as for future salary payment. Our integrated HR ecosystem will assign a unique user ID to the individual after completing the verification procedure. We will conduct reference check to verify the job applicants’ academic records using the China Credentials Verification (中國高等教育學生信息網) which is an information service provider authorized by the Chinese Ministry of Education for verification of higher education qualification certificates and carry out relevant background checks on the job applicants’ work history. In addition, before registered individual users can begin using our platform and complete the process, these individuals are also required to accept the terms and conditions of our systems and platforms. The terms and conditions provide the framework and govern the interaction of registered individual users on our systems and platforms, as well as the access of data and information through our integrated HR ecosystem. The registered individual users are required to confirm to us that the information and data provided are true and accurate.

After registration and background verification procedures are completed, we will employ those selected job applicants on our payroll as contract employees. Generally, we employ contract employees on an as-need basis, as typically we do not keep any contract employee without a flexible staffing position available. In this way, we limit our potential financial exposure resulting from idle contract employees on our payroll should our clients scale down or terminate their business operation. Through Rui Home Platform, we regularly monitor and keep in contact with our contract employees to ensure their performance, personal well-being and seek to address any issue before it arises.

Delivery of Service and Follow up Actions

During the contractual period, our project manager and onsite team will maintain close contact with our clients. We may also provide training to our contract employees in respect of the specifications of the job functions and host orientation program to help them understand the service standards expected by our clients.

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Depending on the number of contract employees deployed for the flexible staffing project, the onsite team can either be seconded to our client on a full time basis (for project that has more than 100 contract employees) or on a rotation/periodical basis (for project that has less than 100 contract employees). Our onsite team is crucial to our service delivery and is an inseparable part of our service quality, which is evaluated by the turnover rate of the contract employees, satisfaction of the client, satisfaction of the contract employees, client request fulfilment and quality of day-to-day operation.

If any of our contract employees fails to satisfy the job functions or was dismissed before the agreed upon contractual period, we would typically replace him or her at no cost to our clients at their request. Approximately 12.8%, 8.3%, 10.6% and 10.3% of our flexible staffing employees departed or were terminated before the end of the applicable contractual period in 2016, 2017, 2018 and the six months of June 30, 2019, respectively, and approximately 1.1% and 2.1% of total flexible staffing employees were terminated before the end of the applicable contractual period in 2018 and the six months ended June 30, 2019, respectively, due to performance issues.

As a comprehensive HR services provider, we strive to provide services that cover the full spectrum of an employment. As part of our contract employee management, we handle the onboarding and departure of contract employees, supervise and monitor the rate of turnover during the contract period, as well as responsible for keeping employee benefits, social insurance and housing provident fund up to date.

Professional Recruitment

We provide results-driven professional recruitment of junior or middle to senior level positions of different functions across various industries for either single or multiple/bulk positions to optimize our clients' HR function and free up capital for these clients to focus on their business development. As the hunt for talent continues to intensify in China and the difficulty in locating the right talent becomes increasingly apparent, companies face challenges in maintaining a supply of talent without accruing fixed recruiting costs that may saddle the core business with unnecessary overhead. Our professional recruitment services source candidates from our growing talent pool and attracts other job applicants from word-of-mouth and offline recruitment events. We cover the whole recruitment process from talent sourcing, interview and selection process to onboarding logistics. Different from flexible staffing services, employees that are hired through this process enter into employment contracts directly with our clients. Supported by our expertise in talent sourcing and our integrated HR ecosystem, our professional recruitment services can often streamline the recruitment process and lower the recruitment cost for our clients.

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Our clients can also subscribe to a membership on a lump sum fee or a periodic payment basis. Under these arrangements, our clients can (i) engage us to arrange candidate interviews; or (ii) to advertise their job openings on Xiang Recruitment Platform, and at the same time, receive candidate referrals from our candidate relationship managers or automatic talent matching through smart data matching and algorithms in accordance with the job functions, salary, work location and other benefits of the job opening and preference, skill set and behavioral data of candidates in our talent pool. This service allows our clients to access those updated and multi-dimensional CVs on our database based on set criteria and job postings and engage with potential job candidates through online chat, as well as set up follow up interviews, which gives our clients an option to tailor our services according to their needs.

During the Track Record Period, we were engaged by approximately 6,400 clients for professional recruitment services, including several large technology companies and financial institutions, and over 3,600 of which also subscribed to our paid membership service. We assess our operating performance of our professional recruitment services by looking at the number of placements we made, as well as the number of clients which continue to enlist our services. Our client retention rate for professional recruitment services was approximately 59%, 71%, 69% and 72% for 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. We have also recruited approximately 48,000, 44,400, 48,500 and 20,900, employees for our clients during the same periods. In comparison, the average recruitment service provider recruited approximately 1,000 and 500 employees in 2018 and the first half of 2019, respectively, according to CIC, which was considerably lower than the number of placements we made.

Business Operation

Recruitment

Our team has extensive knowledge on staffing requirements across different industries. We tailor our talent sourcing strategies according to geographic location, client industry, recruitment timeline, skill set of job applicants and devise a plan to locate, attract and engage the right talent with our client’s internal team. At the outset of each project, we set up a working group dedicated for the specific task at hand, which primarily comprises a project manager and a team of recruitment specialists. The project manager will serve a monitoring role and become the main point of contact for our client’s requests and feedback. The project manager assigned to the client will discuss the requirements of the positions being recruited, while candidate relationship manager will reach out to the potential candidates whom he or she is managing and advertise the job openings through various channels. Through day-to-day interactions and feedback process, our working team usually gains a deep understanding of our client’s business, culture and talent needs, which create future opportunities for us to provide services to the same client. For further details of the features and operation of our recruitment process, please refer to the discussion on our O2O business model in “— Flexible Staffing — Business Operation — Fast Recruitment” in this section.

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Our professional recruitment service contract with our clients typically includes the following salient terms and conditions:

- **Scope of services:** Our scope of service for professional recruitment typically list out the job positions which our clients intend to fill and in the case of multiple/bulk positions recruitment, the total number of employees required.
- **Our obligations:** In addition to our promise to source candidates that match the requirements of our clients, we are also obligated to ensure the selected candidates will continue with the employment within a certain period of time. The guarantee period is typically the same length as the probation period. In the event that the selected candidate resigns within the guarantee period, we usually undertake to find suitable replacement at no extra cost to our client or in the case of a senior/executive position headhunting, we may be required to refund part of the service fee back to our client.
- **Fees and payment:** For calculation of fees, the basis of our fees for multiple/bulk positions recruitment is charged on per successful placement basis. Our clients are usually invoiced upon the commencement of work of the selected candidate. Generally, clients are expected to settle the invoice within five to twenty-five days from the date of invoice. For senior/executive position recruiting, while the recruitment process is largely the same as our flexible staffing business segment, the basis of our fees is charged according to the seniority level of the position and a percentage of the salary of the successfully placed candidate. Payment for senior/executive position recruiting is usually invoiced in two equal instalments where 50% of our service fee is invoiced and payable within 15 days of successful placement, while the remaining 50% is invoiced and payable after the candidate successfully completes the probation period.
- **Terms of service:** Typically, our contract for providing professional recruitment to our clients is for a fixed 12 months period, with either party entitled to terminate the contract with advance written notice of a certain period of time.

Paid membership

Our paid membership clients can request us to arrange client interviews or to advertise their job openings on Xiang Recruitment Platform by providing a comprehensive set of information such as job type, position title, salary range, work description and applicant requirements. Paid members who opted to advertise their job openings on our platform have various options to promote their job opening by tools such as top placement (置頂卡) of job posting. Furthermore, these same clients can also enhance their job postings by using searchable keywords and add-in images to the posting in order to generate more interest from the individual registered users on our Xiang Recruitment Platform.

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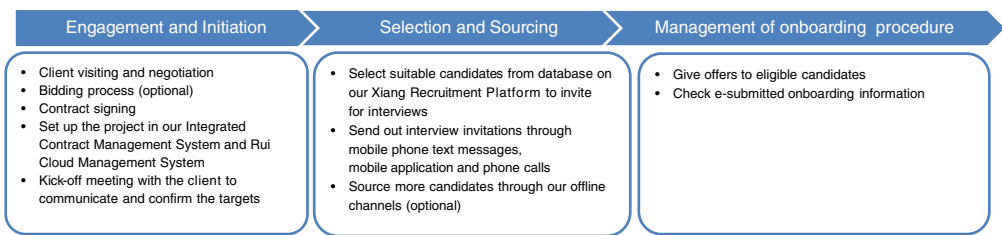
To protect the integrity of our Xiang Recruitment Platform and our brand name, we have established job posting verification procedure in place to remove any stale, false and illegal job postings based on complaints received from our registered individual users and our clients, as well as regular screening and monitoring by our internal employees. For job postings that have been posted for more than seven days, or those positions that have been filled or no longer available, our system will automatically remove those postings to make sure the system is up-to-date.

Under this service, our client undertakes the responsibility in the interview process and subsequent follow-ups, job posting and interaction with potential candidates. However, to promote our services and enhance user experience, we utilize our integrated HR ecosystem to analyze, classify and label any information that are stored in our database, and match job candidates with the right career opportunities.

Process of our Professional Recruitment

Recruitment

The following flow chart is a general overview of the major steps involved in the provision of our professional recruitment:



Typically, the three steps of the process in professional recruitment services, namely, the engagement and initiation of client contacts, the selection and sourcing of talent and management of onboarding process are largely similar to our process in flexible staffing, please refer to “— Flexible Staffing — Process of our Flexible Staffing Services” in this section for further details. However, unlike flexible staffing services, for professional recruitment services, (i) our client signs the employment contract with the successful job candidate directly; and (ii) we do not provide onsite team nor provide regular follow up and supervision of the successful job candidate to ensure low turnover rate. If a job applicant is successful in the interview process and our client decides to proceed with an offer, we will help coordinate the onboarding logistics with the individual and our client. We may also brief our clients on the current market salary and benefits in terms of the attractiveness to job applicants.

Through our Xiang Recruitment Platform, the job applicant can follow the step-by-step instruction to complete the background check process, which include the verification of his or her academic records, identity and credit check. Upon clearance of the background check, the successful job applicant can then sign the employment contract directly with our client.

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Once the employment contract is signed, the successful job applicant will report to work at the agreed start date. We will work with the successful job applicants to get them ready for the job change and facilitate a smooth transition, including, if necessary, training or workshop on job specifications or general orientation before the commencement of work.

Paid Membership

As part of our services under professional recruitment, we actively market this value-added service to our clients by emphasizing on our ability to quickly arrange candidate interviews based on our paid members’ requests, as well as those online add-on services accessible by paid members only, such as unlimited job postings, ability to generate more interests with top placements and searchable keywords. The combination of our paid membership service and professional recruitment creates a well-rounded recruitment strategy where our clients rely on our professional knowledge, well-known platform and highly developed technology to resolve specific staffing needs with desired results while utilizing traditional job posting functions to cover day-to-day operational needs.

Other HR Solutions

BPO

Same as flexible staffing in terms of process, as an alternative to the typical flexible staffing solution which we offer, clients sometimes choose to outsource the entire business operation unit to us in order to further streamline their administrative burden, including the staffing requirement and the obligation to supervise these contract employees. Different from flexible staffing solution, contract employees on BPO assignments often work under our own supervision and at our own office site. Our clients will discuss with us on their preference in terms of candidates and expected results while we will be responsible for handling and delivering the project as a whole. Since we started to offer this service, we were engaged by approximately four, 13 and 18 clients for client service representative (i.e. the Client Service Representative BPO Services), information verification and questionnaire survey BPO services in 2017, 2018 and the six months ended June 30, 2019, respectively. We evaluate our performance for BPO services by the number of contract employees deployed to various BPO assignments. We launched our BPO service in the last quarter of 2017, and as of June 30, 2019, we had a worksite in Liaoning Yingkou and had hired approximately 500 contract employees for client service representative and information verification services. In comparison, the industry average was lower, at approximately 60 contract employees deployed per BPO service provider as of June 30, 2019, according to CIC. We are also expanding our service to Jiangxi Shangrao where the municipal government has recently entered into a cooperation agreement with us to provide subsidies for our rent and other expenses in exchange for our commitment to tax payment and local employment.

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Our BPO contract with our clients typically includes the following salient terms and conditions:

- **Scope of services:** Depending on the nature of positions outsourced to us, the scope of services usually stipulates the task/project to be performed. For instance, we are responsible for client service mainly on WeChat or by phone covering specific geographic areas for the duration of the contract. Under BPO arrangement, while our clients will have the right to conduct site visits and monitor the project, we will be responsible for managing and supervising the project.
- **Our obligations:** During the contract period, we are obligated to maintain sufficient number of contract employees to perform the business functions outsourced to us. Typically, this includes a guarantee of our capability to match the business expansion needs of our clients. Depending on the type of business operation being outsourced, some value-added services may also be offered, for example, for client service functions, we usually include the safe storage/record keeping of phone recording, client contacts and other operational data for a period of 12 months, and will bear the liability towards any damage or loss of these records due to our negligence. During the Track Record Period, we have not been liable to any such liability.
- **Fees and payment:** Our service fees depend on the business functions outsourced, and are usually based on the number of contract employees required for the project or a lump sum. For instance, we may charge our clients for client service function on an hourly basis per contract employee, payable on a monthly basis. The payment is usually due within five to ten days from the invoice issued by us.
- **Term of service:** Typically, our standard contracts are for a term of one year from the effective date, with either party entitled to terminate the contract with advance written notice.

Corporate Training

As part of our commitment to offer comprehensive HR solutions to our clients, we provide training and development courses which are tailored to the specific situations and needs of our clients. During the Track Record Period, we have provided training courses to over 150 clients, on topics ranging from “how to manage employees of younger generation” to “management of career objectives”. Approximately 120 of these clients also utilize our flexible staffing or professional recruitment service.

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As of the Latest Practicable Date, we had over 30 training courses on offer. Our courses are offered by trainers who held key positions at industry-leading players in well-established sectors in providing training courses in the respective fields and with substantial experience in the HR services industry. We prepare our own course materials and match our training tools and coaching tactics to improve client experience. Our adaptive and flexible training settings allow us to service a wide array of clients. We can provide tailored training package which target the business models, staffing structure and required skill sets of our clients.

Our sales and marketing teams regularly follow up with our existing clients and scouting for potential clients. For existing clients, we typically offer training courses which match their use of contract employees, for instance, specialized core skills for various positions. Separately, for clients that outsource their professional recruitment process to us, we can offer training on HR management and other general management topics as add-on service. We believe our training and development courses are widely accepted by our clients and their respective industries, given our ability to assess the weakness in their staffing policy and provide suitable solution to address the issues.

Once a client decides to engage us for providing training and development courses either as a standalone service or as add-on to their other HR needs, we will enter into a service contract with the client which includes the following salient terms and conditions:

- **Scope of services:** Our standard contract for corporate training is designed to cover topics that are of interest to and agreed by our clients.
- **Our obligations:** During the course period, we are obligated to report the training progress and to follow the instructions given by the client.
- **Fees and payment:** Our service fee usually depends on the number of training hours, the type of training and number of courses. The payment for training and development courses is usually due within five to ten business days from the date of contract.
- **Term of service:** Typically, our standard contracts are for a term of one year from the effective date, with either party entitled to terminate the contract with advance written notice.

Labor Dispatch Service

Unlike the typical flexible staffing arrangement where the labor contract arrangement is between us and the contract employee, the labor dispatch service involves a tripartite legal relationship among the contract employee, our client and us in which the client by law has a legal relationship with the contract employees and assumes part of the risks. In the event of a dispute, unlike flexible staffing where the contract employee only has recourse against us, the contract employee under labor dispatch service has the option to sue our client directly due to this legally imposed relationship between our client and the contract employee. Under

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this arrangement, our client is typically responsible for the recruitment of these contract employees, and we charge a lower fee for managing and handling only the logistics and administrative matters of these contract employees, such as social insurance, housing provident fund, as well as salary payment.

Except for the above, our labor dispatch service follows the same process as our flexible staffing services. As of June 30, 2019, we were engaged by over 20 clients for labor dispatch services, and we have hired approximately 4,800 contract employees to provide such services.

Our standardized service contract with our labor dispatch service clients typically includes the following salient terms and conditions:

- **Scope of services:** Typically, for labor dispatch, we act as a dispatching agency and sending contract employees to work for our clients. Under this arrangement, while the contract employees sign the employment contract directly with us, we do not usually provide recruitment service for our client.
- **Our obligations:** During the contract period, we are responsible, as the employer of these contract employees, for managing and handling (i) any onboarding and exiting procedure; (ii) social insurance and housing provident fund of the contract employees; (iii) issuing any certificate of proof of employment of the contract employees; and (iv) salary payment, income tax, as well as if applicable, labor union related fees.
- **Fees and payment:** Our service for labor dispatch is charged on aggregate of (i) monthly management fee; (ii) the total labor remuneration, social insurance and housing provident fund, and other relevant funds of the contract employees under labor dispatch arrangement; and (iii) any other expenses in relation to such labor dispatch service, for example, insurance and administrative fees. The payment is usually due at the beginning of the month following the issue of invoice.
- **Term of service:** Typically our contractual term for labor dispatch service is for a period of one to two years, with either party entitled to terminate the contract with advance written notice. The parties have the option to automatically renew the contract.

Other Miscellaneous Services

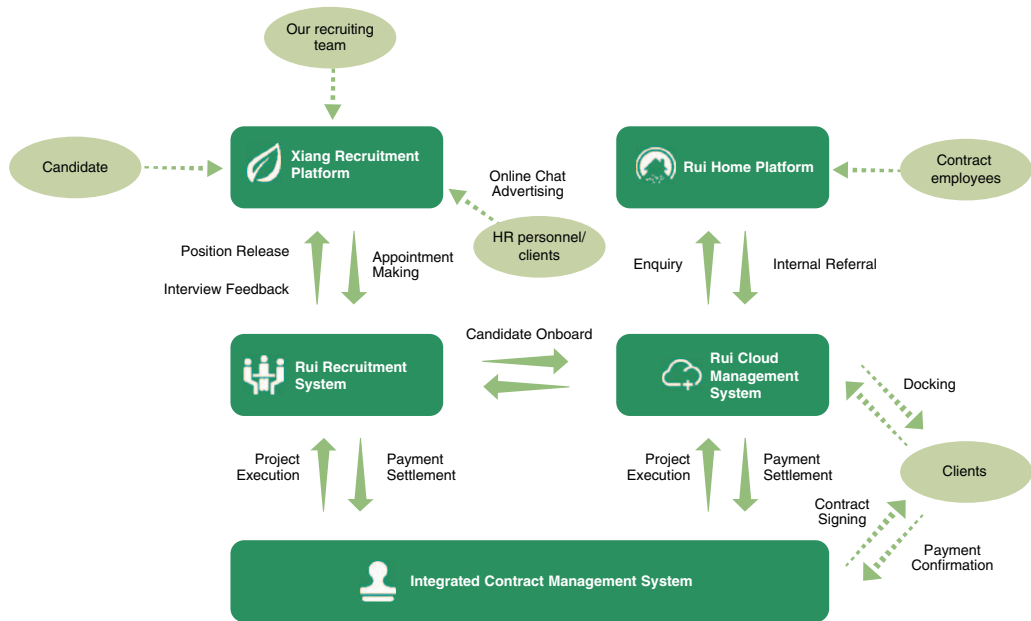
In 2019, we began providing tailored solutions for a client who recognized our expertise in managing flexible staffing employees and projects, and requested our services of assisting in the management of their existing flexible staffing projects. We are engaged, generally for a term of one year, to design and implement training programs, management and dispute resolution policies, daily management proposals and employee work plans for flexible staffing employees on certain projects. We may also provide professional recruitment services for a

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number of their flexible staffing projects if requested. We generally charge on a per flexible staffing employee basis for each project on which we are engaged, with a tiered fee structure. Our management considers this to be an ancillary service we are able to offer with our existing resources.

OUR INTEGRATED HR ECOSYSTEM

The diagram below illustrates how our systems and platforms work together and connect to each stakeholder in our business operations:



Overview

Our integrated HR ecosystem is designed to satisfy the demands of, and to facilitate, our key business operations. Our businesses are built on a range of self-developed core systems, with the key platforms being: Xiang Recruitment Platform, Rui Recruitment System, Rui Cloud Management System, Rui Home Platform and Integrated Contract Management System. As technology and information system advancements and stability are crucial to our business, in early 2016, we revamped and integrated all of these platforms in order to meet our anticipated business expansion needs and provide stable back-office support for our services. This major system upgrade supported our business expansion, and substantially improved our system performance. We also obtained software copyrights for each of these key platforms.

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Key Components

Xiang Recruitment Platform

Our Xiang Recruitment Platform is a self-developed, online-to-offline recruitment interface for job applicants/candidates and our clients that plays a substantial part in bringing in candidates for our talent pool. In addition to serving as a platform for job postings, it allows job applicants to conduct job searches based on different filters and preferences, displays smart job recommendations to job applicants, and is used to handle all the major steps in the recruitment process, from job application to signing in for the job interview, to notification of interview results.

Accessible by registered individual users through Mobile Wap, Mobile App, WeChat groups, WeChat Official Subscription Account, WeChat Service Account and WeChat Mini Programs, our Xiang Recruitment Platform had more than 250,000, 840,000, 1.5 million and 1.8 million registered individual users as of December 31, 2016, 2017, 2018 and June 30, 2019, respectively, among which approximately 240,000, 770,000, 1,370,000 and 1,720,000 registered and identified themselves as job applicants, while approximately 9,500, 69,500, 130,000 and 171,000 registered and identified themselves as HR personnel, respectively.

We have also included special features in our Xiang Recruitment App, such as enhanced job postings that include photos instead of a simple text description, instant online chat functions with HR personnel of our clients, as well as social network and career development advisory services. They can also connect to and interact with other registered individual users, and HR personnel, and also access a variety of job or career-related content. Through our Xiang Recruitment Platform, many registered individual users have actively engaged with others by sharing tips and information in various groups created based on interests or location, as well as setting up offline activities. These functions all serve to drive user engagement and attracted more than 30,000, 100,000, 135,000 and 141,000 average monthly active users and more than 4,300, 17,400, 20,000 and 17,800 average daily visits in 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. The word of mouth effect through Xiang Recruitment App helps to accumulate a growing candidate pool and serves as the backbone to our flexible staffing and professional recruitment business.

Supported by our big data information and data analysis ability, our Xiang Recruitment Platform synchronizes with our Rui Recruitment System and is able to tailor its recommendation of job openings to job applicants, while enabling the simultaneous exchange of information relating to job positions, appointment making requests and feedback on completed interviews. This targeted approach attracts job applicants with visible and desirable job postings and increases the chance of successful placement. The accuracy of the job recommendations is also increased as the matching algorithm takes into account of additional data from a user over time.

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Rui Recruitment System

The Rui Recruitment System is our internal portal on recruitment administration and accessible by authorized individuals through the management portal for the purpose of monitoring the recruitment process of each project. This internal central system allows us to manage client engagements, job postings, candidate selection, offer management and onboarding logistics. Utilizing our analytical tools, our Rui Recruitment System stores all registered individual users’ CVs, synchronizes regularly-updated data from both job applicants and clients on a real-time basis to optimize our algorithm through this closed-loop feedback system and automatically selects and matches these with current job openings through smart data matching and algorithms. Once the matches are done, interview invitations can be automatically generated by the system and sent to potential candidates through mobile messages, as well as through our candidate relationship manager by phone call. To improve the efficiency and accuracy of job and candidate matching, our candidate relationship managers will insert highly customizable and searchable “tags” which describe the personal traits and preferences of our registered individual users, for instance, particular interest in certain types of job openings, preferred job location and past interview feedback and record.

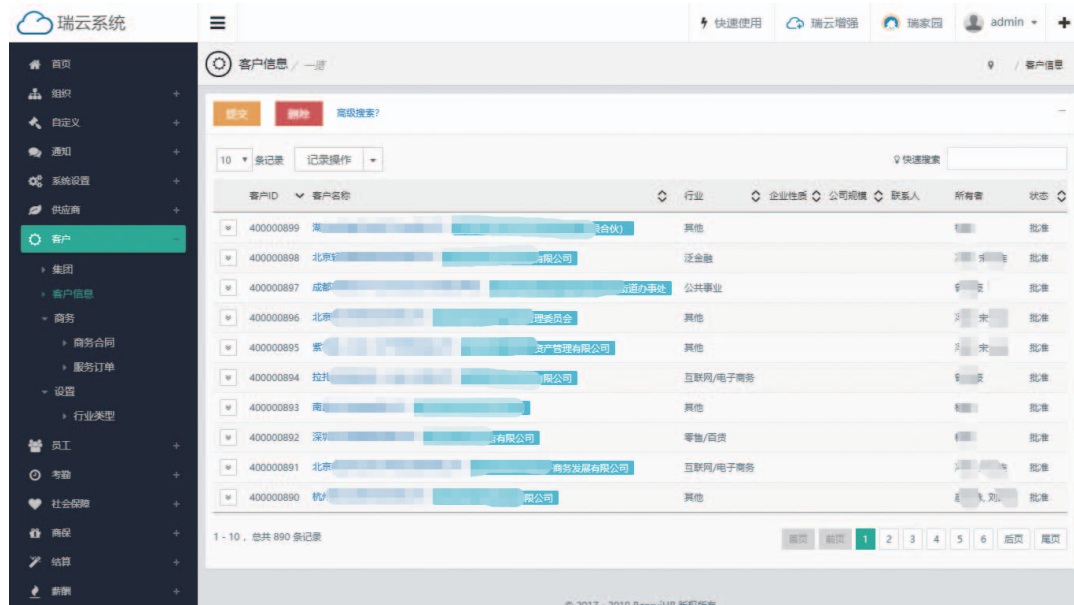
As part of our integrated HR ecosystem, Rui Recruitment System is linked with our Integrated Contract Management System on a real-time basis so that project managers can keep track of any client payment settlement for ongoing projects, unfilled job positions and advertise those job openings through offline recruitment events or through our Xiang Recruitment Platform when executing projects. Furthermore, when an offer is given and contracts are signed, our Rui Recruitment System will also synchronize with Rui Cloud Management System so that all the details can be stored centrally. These interlinked channels, with Rui Recruitment System at the center, allow information generated throughout the recruitment process to be stored in our database and monitored.

Rui Cloud Management System

Our Rui Cloud Management System, a web-based SaaS client portal, is designed to be the cornerstone administrative panel of all of our flexible staffing projects accessible by our clients, our internal employees and separately by contract employees through Rui Home Platform. Depending on the different level of access granted by the system, our clients, internal employees and contract employees can perform administrative functions which include approving leave applications and overtime records, checking attendance, reviewing social insurance and housing provident fund applications, and calculating and payment of salaries and benefits. In addition, using Rui Cloud Management System also allows for electronic employment contract management, including signing and filing, and generating of periodic reports on basic contract employee data and bills.

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The following screenshot illustrates the interface of our Rui Cloud Management System and the main functions accessible by authorized individuals to manage the applicable flexible staffing project:



Our clients access their Rui Cloud Management System accounts through a website portal, and may choose between basic or tailored modules. The tailored modules are highly customizable, and we work with certain strategic clients to create and develop functions and data visualization methods according to their requests. We also provide the option of “docking” which essentially link Rui Cloud Management System with our clients’ existing HR data to increase efficiency of their administrative functions.

Our Rui Cloud Management System is synchronized with our Rui Recruitment System and Rui Home Platform so that all aspects of project execution, such as offer, enrolment and departure information of job applicants or contract employees are tracked and recorded. Empowered by the fully digitalized and synchronized operational data, we are able to centrally record and manage project information and contract employee information and synchronize the information and data across our different systems and platforms, including the status of payment settlement in relation to ongoing projects. The regularly updated data from both job applicants and clients helps us optimize our algorithm, and helps us to continuously manage the recruitment process and flexible staffing projects in real-time.

Rui Home Platform

Rui Home Platform is our one-stop interface with contract employees built on a WeChat Public Account. Once a successful job applicant becomes a contract employee, he or she can register for an account to access comprehensive administrative and social networking functions. For instance, job applicants can complete their respective onboarding procedure by providing required information such as mobile phone number, personal ID as part of the individual verification procedure, as well as bank card information for future salary payment.

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Once the job applicant reports to the position, he or she can manage employment-related matters such as leave application, overtime application, electronic employment contract signing, and notifications from the company to which he or she is deployed, or send any enquiry in relation to issues such as social insurance. We have also added certain social networking special features to increase engagement and a sense of community for our contract employees. These include (i) Xiami Video (蝦米視頻), an add-on for uploading and sharing short lifestyle videos; (ii) chat groups for sharing experiences; and (iii) Bole Ge (伯樂閣), an add-on that rewards successful internal referrals, which has the benefit of higher recruitment rate, as well as lower cost of recruitment and together with other offline modes of referrals accounted for more than 14% of the total number of contract employees recruited in each of 2018 and the six months ended June 30, 2019.

The Rui Home Platform is linked to our Rui Cloud Management System, so that it can provide real-time updates of contract employee data, as well as employment records, including signed electronic employment contracts.

The following screenshot illustrates the interface of our Rui Home Platform:



Integrated Contract Management System

Our suites of services are possible because of the underlying Integrated Contract Management System. This system is to enhance our internal control and digitalize our operation through standardizing all contracts used in our operation, including assigning unique contract ID to ensure easy access and record keeping of various data such as the status of the contract, contractual period, and responsible project manager. This acts as the

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backbone of our operations, and integrates client and employee contracts, manages different contract stages, and documents settlement, billing and payment records. We regularly use this system in all areas of our operations, such as to generate business reports and review contract balances with clients.

As the system was developed internally, all features and functions are tailored for our operations, and we are able to improve and update it according to our business needs.

Access through Portals

Our internal employees

Our internal employees access the ecosystem mainly through Rui Cloud Management System and Rui Recruitment System, which enable them to perform HR services ranging from position advertisements, front-end recruitment, induction and onboarding, back-end personnel management and other HR functions.

Our clients

Our clients access the ecosystem by logging into their individual account online through Rui Cloud Management System. This gives them real-time information about the contract employees currently being deployed to them and the ability to monitor day-to-day managerial items such as attendance records.

Our registered individual users

Our registered individual users access the ecosystem through the Xiang Recruitment Platform. As of December 31, 2016, 2017, 2018 and June 30, 2019, there were more than 50,000, 569,000, one million and 1.2 million downloads for the Xiang Recruitment App, respectively, and more than 250,000, 840,000, 1.5 million and 1.8 million registered individual users, respectively.

Our contract employees

Our contract employees may sign up for individual accounts to access the Rui Home Platform. Since we introduced Rui Home in 2017, as of December 31, 2017, 2018 and June 30, 2019, there were more than 6,900, 22,500 and 45,700 accounts registered for Rui Home, respectively. The registered accounts of our contract employees will be suspended at the end of their respective contractual period and will be reactivated at the start of next assignment.

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TECHNOLOGY AND PRODUCT RESEARCH AND DEVELOPMENT

We believe that our advanced infrastructure and technologies are critical to our success, and have made significant investments in developing our core technology systems and platforms. We believe our strong R&D capabilities for new products and services to address both our operational needs and the needs of our clients are built upon our strong technological capabilities, which represents one of our competitive advantages. These capabilities enable us to deliver a seamless experience for our clients, protect information confidentiality, run big data analysis and increase operational efficiency.

Technological Capabilities and Capacities

Our Big Data Analytics

We believe data is one of the most important assets for the HR services industry, and our Rui Recruitment System was developed with a view to create dynamic, intelligent, and multi-dimensional candidate and job position analyses. We have a database containing significant volume of data, and continue to accumulate a large amount of data from our various business systems on a daily basis. All operational data of our business lines, contracts, and employee data are digitalized and electronically managed and stored, with easy-to-use systems in place to conduct checks or cross-referencing as necessary.

Our strong data analytics capability significantly increases the value of our data. For example, real-time updates of certain key performance indicators which we have identified as significant will be made readily available. These allow our employees and management to monitor the status of our operations and achievements across different departments and at different stages of performance of our client contracts, leading to overall improvement in productivity.

Our integrated HR ecosystem utilizes an array of processing and analytical techniques to gather data from our various platforms, then standardizes and integrates them into our existing database which in turn are shared across our different systems and platforms. Designed for scalability and flexibility, our data technology also has the ability to recognize and remove duplicates in our database, and to identify and update existing profiles as required. As of June 30, 2019, we had over 1.8 million sets of user data in our database. Our detailed user profiles include personal and education background, work experience, skills, preferences, as well as previous recruitment behavior such as browsing and search history, prior job applications, interactions, and transaction records. The networking and social media functions of our various platforms also allow us to capture additional data, which is then incorporated into our algorithms to enhance our understanding and to optimize our processes and services. To assess the accuracy of information provided as part of user profile, we use a combination of methods, including verifying academic qualifications by using the China Credentials Verification (中國高等教育學生信息網) which is an information service provider run by the China Higher Education Student Information and Career Centre, and is the only institution authorized by the Chinese Ministry of Education for verification of higher education qualification certificates. For job postings by HR personnel, we require all HR personnel with access to our job posting functions to register for their accounts with their corporate HR email

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addresses, as well as provide their business licenses for verification. Xiang Recruitment also has filters built in which allow us to insert key words and specified criteria in order to screen out inappropriate or inaccurate job positions before they can be published onto our platform. Our platforms will automatically remove those job postings which have not been updated for more than seven days. We also have reporting channel which allow users of our platform to make reports against inaccurate and misleading information. Upon receiving such report from our users, we will investigate and delete those postings with inaccurate and misleading information, and in some occasions, delete the accounts which are responsible. Our candidate relationship managers will also make inquiries and follow-up with individual applicants as necessary. Our systems require minimum levels of information before an application can be submitted.

Our big data analytics technology allows us to study the profiles, preferences, and behaviors of individual users. We are able to efficiently and accurately analyze these large amounts of data with our algorithms designed for automated recommendations and intelligent matching between candidates and available positions. We are able to process these large amounts of data in-house, which reduces cost and improves our operational efficiency. Our data analytics technology allows for an optimized selection of candidates to be presented to our candidate relationship managers, who are then able to contact and recommend or send interview invitations to these shortlisted candidates. Our employees are also given the flexibility to adjust the level of human involvement in the decision and filtering process to enhance operational efficiency and increase the rate of invitation acceptances.

Data Security and Confidentiality Protection

We deploy technology and measures to ensure the authenticity, safety, and confidentiality of our user and client information and database. Before we collect any information from our registered individual users, we obtain their express authorization through the user service agreement. We strive to maintain a secure infrastructure for our platforms, and have an information security policy and rules in place. Our information security team members also actively participate in periodic data security training. Our management team will be directly notified upon any discovery of security bugs or threats that require urgent attention. For further details on these measures, please refer to “— Risk Management and Internal Control” in this section for further details.

Our Product Research and Development

We have dedicated R&D teams based in Shanghai and Beijing that keep abreast of the latest developments in relevant technological advancements, clients feedback and competitor products in order to continually upgrade our existing systems as well as design and introduce new products and service offerings. Our R&D staff have expertise in system, infrastructure, system functioning, IT management, as well as operation and maintenance. When planning and developing new products or services, we consider: (i) whether the current tools and services sufficiently address client needs; (ii) the technical difficulty in developing and supporting the proposed new offering; (iii) cost and benefit of adding the new product or service to our existing suite of services; and (iv) time cost for R&D. As of June 30, 2019, we had a team of approximately 38 employees mainly consisting of software engineers who have

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bachelor or graduate degrees and on average had over five years of R&D experience in internet and technologies related industry, led by one of our founders and our Chief Operating Officer, Mr. F Zhang. For 2016, 2017, 2018 and the six months ended June 30, 2019, our R&D expenses amounted to approximately RMB16.6 million, RMB13.8 million, RMB13.1 million and RMB7.1 million, respectively, which cover various upgrades made during the Track Record Period to improve our integrated HR ecosystem, website SaaS and customer services provided to our clients and registered individual users, as well as optimization made to improve the efficiency and effectiveness of recruitment tools available to our project managers and candidate relationship managers.

Research and Development Process

Our R&D process for new service typically comprises four steps:

- **Market demand:** Based on the feedback of our clients and candidates, our business units will devise a preliminary plan to address client needs in which potential new services will be proposed. Our project managers and sales teams constantly monitor market trends and maintain close contact and communication channels with our clients so any shifts in demand or preferences can be addressed.
- **Product design:** After collating internal feedback from all business divisions on the preliminary plan to develop a new service, the business units will discuss the preliminary plan with our R&D team while examining any technical difficulties in producing, implementing, or using such new services. Our senior management will continually be updated with any proposal to develop a new service throughout the process in order to ensure that they are in line with our business strategies. This stage of the process usually takes one to three months.
- **Product rollout and initial feedback:** We will officially launch the new service by uploading it to our multimedia platforms and promote the services through word-of-mouth or in some cases, with targeted advertisements in selected markets or through certain other channels. Subsequent to a new service launch, our sales and marketing teams will proactively reach out to our clients and registered individual users for initial feedback on the new service which will then be provided to our R&D team as reference for future development and continual optimization.
- **Maintenance and upgrade:** To ensure an optimal experience for our clients and registered individual users, we have dedicated teams monitoring the performance and efficiency of our services. We provide full support to our services and periodically upgrade the system to debug and to add new features for a better user experience.

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Recent initiatives

We are committed to investing further in our R&D capabilities and expanding our R&D team to support our business development and maintain our technological advantages. Our previous R&D initiatives include the major overhaul, improvement and integration of our key platforms in early 2016, including our Xiang Recruitment Platform, Rui Recruitment System, Rui Cloud Management System, Rui Home Platform and Integrated Contract Management System.

To enhance stickiness of our contract employees, we continually develop additional functions as we expand our business. For example, we have added certain social networking features, such as interactive forum for contract employees to exchange work stories, connecting users for online and offline group activities, as well as functions which encourage job referrals among existing contract employees and award those who successfully refer others to a job posted on Xiang Recruitment Platform.

We are also in the process of developing an additional platform function to meet the talent sourcing needs of our business. This platform will fit into our existing WeChat public account, and will also be accessible through the Rui Home Platform by our contract employees. They are encouraged with monetary incentives to refer possible candidates to job openings, particularly in certain industries like new retail with large staffing needs. Please refer to “— Our Strategies” in this section and “Future Plans and Use of [REDACTED]” in this document for further details.

OUR CLIENTS

Our clients consist of corporates operating in various industries, particularly new economy companies, to whom we deployed over 16,700 flexible staffing employees as of June 30, 2019, which accounted for approximately 83% of our total number of flexible staffing employees deployed as of that date. We generate all of our revenues by providing our HR solutions, including (i) flexible staffing services of various level positions, primarily of low to mid-level positions by charging a premium along with all labor costs associated with the contract employees; (ii) customized professional recruitment services by charging a fixed fee based on the number of candidates successfully placed, or in the case of senior or executive level headhunting, by the seniority of the position and a percentage of the salary of the successfully placed job candidate, as well as paid membership-based candidate interview arrangement and job advertising through our Xiang Recruitment Platform; and (iii) other HR services comprising BPO services, labor dispatch services, corporate training services and other miscellaneous services charged on a case-by-case basis. For further details on how different types of services are charged, please refer to “— Our Business and Operations” in this section.

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The table below sets forth a breakdown of the Company’s number of clients for its flexible staffing services by industry during the Track Record Period:

	Year ended December 31			Six months ended June 30,
	2016	2017	2018	2019
	Number of Clients	Number of Clients	Number of Clients	Number of clients
New Economy ⁽²⁾	155	223	237	218
Financial Institution	32	32	32	27
Real Estate	63	49	32	29
Others ⁽¹⁾	38	37	42	47
Total	288	341	343	321

Notes:

- (1) Others mainly include manufacturing, retail, logistics and construction.
- (2) New economy generally refers to industries that rely inherently on technological advancements, such as the internet, business services, hardware and software technologies, media and entertainment industries, and traditional industries that are being transformed as a result of innovations, such as retail, healthcare, finance, and new energy industries, according to CIC.

We generated revenue of approximately RMB169.9 million, RMB342.7 million, RMB821.2 million and RMB615.6 million from our top five clients, representing 45.2%, 44.2%, 50.8% and 57.1% of our total revenue for each of 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. Our top five clients during the Track Record Period represent nine different clients. Revenue from our largest client for 2016, 2017, 2018 and the six months ended June 30, 2019 was approximately RMB57.3 million, RMB138.7 million, RMB345.9 million and RMB367.2 million, representing approximately 15.2%, 17.9%, 21.4% and 34.1% of our total revenue for those periods, respectively. Our largest client is different for each of 2016, 2017 and 2018, and we did not place material reliance on any specific client during the Track Record Period.

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The table below sets forth certain details of our top five clients during the Track Record Period:

For the year ended December 31, 2016

Rank	Client	Background	Services provided by our Group	Percentage of total sales	Approximate length of relationship
1	A	A Chinese technology company engaged in provision of video streaming, cloud, and other services with a registered capital of RMB1,000 million	Flexible staffing	15.2%	2016-2018
2	B	A Chinese bank providing financial services to individuals and businesses with over 500 branches in mainland China, Hong Kong and Macau. It has a registered capital of approximately RMB15.4 billion, and has more than 34,000 group employees	Flexible staffing; professional recruitment	9.8%	5 years
3	C	A Chinese company providing app-based transportation services to approximately 550 million users and over 30 million drivers with operations in five countries	Flexible staffing	7.9%	5 years
4	D	A Chinese retailer group which principally sells home appliances and other electronic products through its online website and over 10,000 self-operated and franchised stores in China and Japan, and has been listed on the Shenzhen Stock Exchange since 2004	Flexible staffing; business process outsourcing	6.4%	7 years
5	E	A Chinese-language online travel information provider and search engine for web-based and mobile users, which provides group-buying deals in more than 100 Chinese cities, with a registered capital of RMB11 million and operated as a variable interest entity of a company listed on the Nasdaq Stock Market (which was delisted in 2017)	Flexible staffing	5.9%	6 years
				<u>45.2%</u>	

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For the year ended December 31, 2017

Rank	Client	Background	Services provided by our Group	Percentage of total sales	Approximate length of relationship
1	F	A company providing station-less bicycle-sharing services, which was acquired in 2018 by a company listed on the Stock Exchange	Flexible staffing	17.9%	3 years
2	G	A subsidiary of a Chinese internet technology company providing online, PC and mobile games, advertising and e-commerce services, which is listed on the Nasdaq Stock Exchange	Flexible staffing	8.7%	4 years
3	C	A Chinese company providing app-based transportation services to approximately 550 million users and over 30 million drivers with operations in five countries	Flexible staffing	7.8%	5 years
4	B	A Chinese bank providing financial services to individuals and businesses with over 500 branches in mainland China, Hong Kong and Macau. It has a registered capital of approximately RMB15.4 billion, and has more than 34,000 group employees	Flexible staffing; professional recruitment	6.3%	5 years
5	H	A private Chinese internet technology company providing various content platforms, including personalized information feeds to users powered by machine learning algorithms and popular video-sharing mobile apps, with over 20 offices worldwide and a registered capital of RMB10 million	Flexible staffing; professional recruitment	3.5%	3 years
				44.2%	

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For the year ended December 31, 2018

Rank	Client	Background	Services provided by our Group	Percentage of total sales	Approximate length of relationship
1	H	A private Chinese internet technology company providing various content platforms, including personalized information feeds to users powered by machine learning algorithms and popular video-sharing mobile apps, with over 20 offices worldwide and a registered capital of RMB10 million	Flexible staffing; professional recruitment	21.4%	3 years
2	C	A Chinese company providing app-based transportation services to approximately 550 million users and over 30 million drivers with operations in five countries	Flexible staffing	9.6%	5 years
3	F	A company providing station-less bicycle-sharing services, which was acquired by a company listed on the Stock Exchange in 2018	Flexible staffing	9.2%	3 years
4	G	A subsidiary of a Chinese internet technology company providing online PC and mobile games, advertising and e-commerce services which is listed on the Nasdaq Stock Exchange	Flexible staffing	6.0%	4 years
5	B	A Chinese bank providing financial services to individuals and businesses with over 500 branches in mainland China, Hong Kong and Macau. It has a registered capital of approximately RMB15.4 billion, and has more than 34,000 group employees	Flexible staffing; professional recruitment	4.7%	5 years
				50.8%	

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For the six months ended June 30, 2019

Rank	Client	Background	Services provided by our Group	Percentage of total sales	Approximate length of relationship
1	H	A private Chinese internet technology company providing various content platforms, including personalized information feeds to users powered by machine learning algorithms and popular video-sharing mobile apps, with over 20 offices worldwide and a registered capital of RMB10 million	Flexible staffing; professional recruitment	34.1%	3 years
2	C	A Chinese company providing app-based transportation services to approximately 550 million users and over 30 million drivers with operations in five countries	Flexible staffing	8.0%	5 years
3	I	A Chinese state-owned enterprise which constructs and operates power networks covering five southern provinces in China with a population of approximately 252 million people.	Flexible staffing	5.9%	2 years
4	F	A company providing station-less bicycle-sharing services, which was acquired by a company listed on the Stock Exchange in 2018	Flexible staffing	4.8%	3 years
5	G	A subsidiary of a Chinese internet technology company providing online PC and mobile games, advertising and e-commerce services which is listed on the Nasdaq Stock Exchange	Flexible staffing	4.3%	4 years
				<u>57.1%</u>	

Supported by our HR industry insights and understanding of the business landscape, we are able to adapt our services in accordance with the increasing demand for alternative staffing solutions by unicorn companies and clients from the new economy. Built upon our fast execution and comprehensive HR solution capabilities, we have been providing services to unicorn companies like ByteDance, Mobike and Xiaohongshu. Our leading market position allows us to establish contacts with clients in a wide array of industries and of different sizes. In addition to new economy, our clients also include mainly financial institutions and companies operating in real estate, manufacturing, retail, logistic and construction industries. Our clients are based in major cities across China and generally have demand for various levels of talents.

We typically enter into legally binding service contracts with our clients for a term of 12 to 24 months which set out our service premium and payment terms for the specific HR solutions to be provided. Please refer to “— Flexible Staffing”, “— Professional Recruitment” and “— Other HR Solutions” in this section for further details.

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During the Track Record Period, we have generally allowed a credit period of 10 to 70 days to our clients. Please refer to the section headed “Financial Information — Discussion of certain items from the consolidated balance sheet — Trade and Notes receivables” in this document for details.

For our professional recruitment clients, our service fees are usually paid by installments and depend on the satisfaction of certain milestones, for example, when the successful job candidate reports to work and when such job candidate passes his or her probation period. Depending on the project, the payment intervals by our clients are specified by us depending on a number of factors including transaction volume, length of relationship the client has with us and payment history. However, irrespective of the above, our Integrated Contract Management System will push notices/reminders to our sales team and project managers for any client account which has outstanding balance for more than one month.

As part of our ongoing effort to maintain client satisfaction and to continually develop and improve our services, we have established client care teams to solicit feedback from our clients which allow us to promptly resolve any concern or issue encountered by our clients. Our dedicated client service hotline allows our clients to provide spontaneous feedback on our service quality.

During the Track Record Period, all of our five largest clients were Independent Third Parties. As of the Latest Practicable Date, none of our Directors, their close associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest clients.

During the Track Record Period, to the best knowledge and belief of our Directors, one client from our top five clients was also a supplier for the year ended December 31, 2018 and for the six months ended June 30, 2019. We provided flexible staffing and professional recruitment services to this client throughout the Track Record Period. The revenue generated from this client for the year ended December 31, 2018 and the six months ended June 30, 2019 were approximately RMB154.7 million and RMB86.0 million, accounting for approximately 9.6% and 8.0%, of our total revenue for those periods, respectively. This client is a transportation network company that provides ride-hailing services. Another entity within this group was our supplier, with whom we set up a corporate account in 2018 for our contract employees deployed on certain projects to charge their transportation fees. For the year ended December 31, 2018 and the six months ended June 30, 2019, our purchases from this supplier was approximately RMB4.9 million and RMB5.9 million, representing 0.3% and 0.6% of our total cost of revenue for those periods, respectively.

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OUR SERVICE PROVIDERS AND SUPPLIERS

We source certain services from third party suppliers and service providers, and they mainly include social insurance and housing provident fund processing agents, call center and technical support for BPO services, transportation services, other HR services providers for candidate sourcing and subcontractors for flexible staffing or BPO services. We do not have any concentration risk with our suppliers. Purchases from our top five suppliers accounted for less than 30% of our total cost of revenue for each of 2016, 2017, 2018 and the six months ended June 30, 2019. We had business relationships with our top five suppliers ranging from approximately two to six years.

To ensure quality, we evaluate the performance of our suppliers on an annual basis. We measure the performance of our suppliers mainly by looking at the following elements throughout the evaluation period: (i) efficiency of the supplier — whether or not the supplier reacted to our request in a timely fashion and can address urgent queries within one hour timeframe; (ii) the quality of service provided by the supplier; and (iii) the cost of service. For those suppliers that exceeded our expectations, we will give them priority in future service provider selection process. Conversely, for those suppliers that failed to meet our standard, we will discontinue our engagement with them.

We typically enter into contracts with our suppliers for a term of 12 months with monthly settlement. To ensure prompt payment and enable proper recording, we streamline payment process and implement annual review and evaluation for our major suppliers. The contract with our service providers or suppliers usually contains a fixed rate chargeable on a per person, per service or per project basis, as the case may be. In general, our suppliers issue invoices to us on a monthly basis as the case may be, with a credit term of less than one month. We typically reserve the right to terminate the contracts with our suppliers if our suppliers breach the contract or we can terminate with advance notice to and consent from our suppliers.

During the Track Record Period, all of our five largest suppliers were Independent Third Parties.

Subcontracting

We engage subcontractors to provide workers to fill specific positions in our flexible staffing projects and BPO projects to cover industries where we currently do not have expertise or when we encounter capacity constraints. Our subcontractors include other HR services companies. During the Track Record Period, other than a subcontractor located in India whose fees were denominated in USD, all of our subcontractors were located in China and all of their subcontractors fees were denominated in RMB. While we primarily fulfil our clients’ requests and service needs using our own resources and extensive service network, by adopting use of subcontractors in certain regions, or delegating the task of filling certain positions, our Directors believe that our Group was able to maintain a degree of flexibility in our pace of expansion and leverage on the market advantage of certain subcontractor. We

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select subcontractors on a case-by-case basis, based on their background, and qualifications in providing services to us, for the purpose of maximizing value and to provide a seamless experience to our clients. We have an average of one year of cooperation with our subcontractors.

During the Track Record Period, our subcontracting costs amounted to approximately nil, RMB1.2 million, RMB10.9 million and RMB0.4 million, representing approximately nil, 0.2%, 0.7% and 0.04% of our total cost of revenue, respectively.

Our Directors confirm that all of our subcontractors are Independent Third Parties and we do not place any undue reliance on any of our subcontractors.

Our service contracts with subcontractors typically include the following salient terms and conditions:

- **Scope of services:** Depending on the nature of services that are being subcontracted, typically, this includes a general obligation imposed on the subcontractor to fulfill the requests and needs of us and our clients, including, but not limited to, fulfilling certain staffing needs, and providing HR services and personnel management.
- **Subcontractor’s obligations:** Subcontractors are obligated to ensure all personnel under the subcontracting agreement comply with all relevant legal and regulatory requirements to perform the required services. Subcontractors are also typically responsible for any and all liabilities in connection with the employment of personnel under the subcontracting arrangement. Any personnel employed under the subcontracting arrangement will be employees of the subcontractors and subcontractors are responsible for paying any social insurance, housing provident fund and taxes in connection with these employed personnel.
- **Fees and payment:** Our subcontractors typically bill us for the cost of labor along with personnel management fee on a monthly basis. Our service fee is typically calculated based on the number of employees required times a pre-agreed unit rate per employee.
- **Terms of service:** Our terms with subcontractors vary according to the requirements of our clients. Typically, the term of service is usually less than one year.

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OUR EMPLOYEES

As of December 31, 2016, 2017, 2018 and June 30, 2019, we had approximately 11,000, 21,500, 27,800 and 26,100 employees, respectively, all of whom were based in various cities in China. The following table sets forth our total number of employees by function as of June 30, 2019:

Function	Number of Employees	% of Total Employees
Internal Employees		
- Senior management	4	0.0
- R&D	38	0.1
- Sales and marketing	101	0.4
- Headhunting	18	0.1
- Project management/execution	363	1.4
- Others ⁽¹⁾	68	0.3
Subtotal	592	2.3
Contract Employees		
- Flexible staffing employees	20,156	77.2
- BPO employees	503	1.9
- Labor dispatch employees	4,851	18.6
Subtotal	25,510	97.7
Total	26,102	100.0

Note:

- (1) Others mainly include back-office support staff, such as legal department, finance department, and HR department.

Employee retention

We believe that our success depends largely on our ability to attract, retain, and motivate qualified personnel. As part of our HR strategy, we offer our employees competitive salaries, performance-based cash bonuses, and other incentives such as internal training and career development advisory service. These employee benefits and other incentives contributed to the well-being and job satisfaction of our employees.

Our management team will assess on a continuous basis the available human resources and whether or not we can meet the obligations and staffing requirements of our projects. We primarily recruit our employees through online channels in particular our Xiang Recruitment Platform and our corporate website, internal reference, recruitment agencies and on-campus job fairs. Depending on the seniority of the position, we utilize a mix of online and offline channel to recruit the most suitable candidate.

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Employee training

We believe the quality of our contract employees attributed to client satisfaction and repeated business. Our training/induction sessions arranged for our contract employees at the beginning of the flexible staffing project help them understand the corporate culture and management style of our clients, as well as the service standards expected by us. As part of our ongoing assessment of each contract employee, we will provide training courses matching the specifications of the job functions in order to improve performance.

Employee relations

We enter into individual employment agreement with our employees to agree on matters such as wages, benefits and other rights and obligations of parties. We are also required by PRC laws and regulations to participate in various employee social insurance fund that are administered by local governments, including basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident fund.

To efficiently administer the contributions to housing provident fund and social insurance in certain cities in China where our contract employees prefer to participate in their place of residency and we do not maintain a subsidiary or branch office due to our extensive service coverage, we have engaged third-party agents to assist with social insurance and housing provident fund payment for some of our contract employees, which accounted for less than 12.0% of our total contributions to social insurance and housing provident fund for 2018 (“**Agent Payment Arrangement**”). Such agents have confirmed to us that they have performed their obligations under the agreements with us to make housing provident fund and social insurance contributions for our contract employees. Nevertheless, such arrangement is not in strict compliance with the relevant PRC laws and regulations since the obligation to make contributions to social insurance and housing provident fund rests on us and should not be delegated to a third party agent.

During the Track Record Period and up to the Latest Practicable Date, we had not made full contributions for social insurance and housing provident fund based on the actual salary levels of our employees (including those paid by the agents as described above) (“**Non-Statutory Contributions**”). For the years of 2016, 2017, 2018 and the six months ended June 30, 2019, the total social insurance and housing provident fund contributions we paid directly and through the agents amounted to approximately RMB78.3 million, RMB135.7 million, RMB272.7 million and RMB165.3 million respectively. If we were to pay the aggregate amount of shortfall of contributions for social insurance and housing provident fund based on the actual salary level of our employees during the Track Record Period, the estimated amount would be approximately RMB2.0 million, RMB27.0 million, RMB48.0 million and RMB37.0 million for 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. This shortfall of contributions was primarily caused by our understanding that the current basis on which our contributions were made is acceptable by the relevant government authorities.

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As advised by our PRC Legal Advisor, in respect of the Agent Payment Arrangement and the Non-Statutory Contributions, if the Social Insurance Administrative Authority (社會保險行政部門) which is the competent PRC government authority is of the view that the social insurance payments made by us and/or our agents violated the requirements under the relevant PRC laws and regulations, it can order us to pay the outstanding balance within a prescribed time period and a late fee of 0.05% of the total outstanding balance per day from the date of such failure of payment. If we fail to do so within the prescribed period, we may be subject to an additional fine ranging between one to three times of the total outstanding balance. If the Housing Provident Fund Administrative Centre (住房公積金管理中心) which is the competent PRC government authority is of the view that the contributions for the housing provident fund made by us and/or our agents did not satisfy the requirements under the relevant PRC laws and regulations, it can order us to pay the outstanding balance within a prescribed time period. If we fail to do so within the time limit, it can apply to the court for enforcement. We undertake to pay the outstanding contributions to social insurance and housing provident fund and late fee (if any) within the prescribed time period if and when requested by any of the aforementioned government authorities. On this basis, we do not believe that we will be subject to any administrative fine.

With regard to the Agent Payment Arrangement and the Non-Statutory Contributions, all of our PRC Subsidiaries during the Track Record Period with employees have consulted with and received written confirmations or verbal confirmations during interviews from the corresponding social insurance administrative authorities (社會保險行政部門) and housing provident fund administrative centres (住房公積金管理中心) responsible for our relevant PRC Subsidiaries that (i) we had made contributions to social insurance and housing provident fund for our employees; (ii) we did not have any record of administrative penalties or material disputes due to violation of relevant laws and regulations relating to social insurance and housing provident fund contributions; (iii) they would not take initiative to demand us to pay for the shortfall of contributions or impose any penalty on us; and (iv) we may continue to make contributions for social insurance and housing provident fund on the current basis and arrangement, or at least were not requested by the aforementioned government authorities to rectify the Agent Payment Arrangement or Non-Statutory Contributions. As advised by our PRC Legal Advisor, such confirmations were made by the competent authorities.

Furthermore, according to the Notice by the General Office of the State Administration of Taxation on Conducting the Relevant Work Concerning the Administration of Collection of Social Insurance Premiums in a Steady, Orderly and Effective Manner (國家稅務總局辦公廳關於穩妥有序做好社會保險費徵管有關工作的通知) issued on September 13, 2018 and the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Security Contributions (人力資源和社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知) issued on September 21, 2018, all the local authorities responsible for the collection of social insurance are strictly forbidden to conduct self-collection of historical unpaid social insurance contributions from enterprises. In addition, on April 1, 2019, the General Office of the State Council issued a notice on

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Promulgation of the Comprehensive Plan for the Reduction of Social Insurance Premium Rate (國務院辦公廳關於印發<降低社會保險費率綜合方案>的通知) which generally reduces the social insurance contribution burden of enterprises, and re-emphasizes that local authorities shall not conduct self-collection of historical unpaid social insurance contributions from enterprises.

Despite the shortfall of contributions, we believe that the possibility of us being ordered to settle a material portion of such shortfall is remote because (1) we had received confirmations from the relevant government authorities that they would not take initiative to demand us to pay for the shortfall or impose penalty on us; (2) based on the confirmations from the relevant government authorities, our PRC Legal Advisor is of the view that the risk of us being ordered to pay the outstanding amount of contributions and be subject to any penalty, in each case initiated by the competent government authorities, is remote; (3) during the Track Record Period and up to the Latest Practicable Date, no administrative penalty had been imposed on us with respect to such non-compliance, nor had any order or material claims from employees been received by us to settle the outstanding amount of social insurance and housing provident fund contributions or in connection with our engagement with third party agents or their failure to make such contributions; (4) we believe that there is no incentive on the part of the employees to demand us to make up the shortfall since the employees will also be required to pay for the shortfall on their part if they make such a demand; and (5) the possibility of a significant number of employees making similar demand at the same time for us to make up the shortfall so as to cause a material adverse impact on us is even more unlikely, considering our employees are geographically dispersed in more than 150 cities and under the authorities of different governmental departments.

On the basis of the confirmations received from the competent authorities, the above notices issued by the relevant state-level authorities, the views of our PRC Legal Advisor and the remote possibility of being ordered to settle a material portion of such shortfall, we consider that the above non-compliance issues would not have a material adverse effect on our business, financial condition or results of operation, and therefore we did not make any relevant provision in our financial statements. Furthermore, our Controlling Shareholders have provided an indemnity in our favour with respect to any loss we may suffer in connection with the Non-Statutory Contributions and Agent Payment Arrangement. Our Directors are satisfied that our Controlling Shareholders have sufficient financial resources to honor their obligations under the Deed of Indemnity in respect of the aforesaid non-compliance matters.

We have further strengthened our internal control procedures by designating employees (who will report to our head of legal department) in each of our PRC Subsidiaries to maintain regular communications with the relevant local authorities at least on an annual basis, and we undertake to make necessary adjustments (if any) to comply with the requirements within the prescribed time period imposed by such local authorities.

Except for the immaterial labor disputes that arose during the Track Record Period, we believe we maintain a good working relationship with our employees. Our internal and contract employees are not members of any labor union.

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In addition to government-administered employee benefit scheme, for the well-being of our contract employees, we have established Rui Home Platform, which enables our contract employees in more than 150 cities across China to keep track of matters such as onboarding procedures, e-signature for employment contracts, leave application, salary inquiries, training programs and employee benefits. Please see “— Our Integrated HR Ecosystem — Key Platforms — Rui Home Platform” in this section for further details.

BRAND BUILDING AND MARKETING

We employ a variety of dynamic and adaptive marketing methods which allow us to meet the market demand at any given time and enhance the positive brand recognition of our services. Our marketing strategies target both clients and potential candidates and we believe our marketing efforts together with word-of-mouth referrals have helped generate brand awareness among professionals and industry leading corporations.

Clients

With respect to clients, we organize and participate in HR conferences and recruitment events to promote our brand. We believe the most effective brand building tool is to continuously strengthen our services that increase stickiness of our clients through repeating businesses. To do so, we proactively seek client feedback on our services for improvement, which allows us to become an inseparable part of our clients’ growth and business expansion.

Our visionary management team regularly delivers speeches at various industry association events and publishes articles in well-recognized HR industry magazines to boost our brand name and attract potential clients and individual job seeking talents. Our Chief Executive Officer, Mr. JG Zhang, is widely recognized as one of the HR industry thought leaders. He was an author of numerous publications, including Flexible Employment (《靈活用工 — 人才為我所有到為我所用》) which discussed flexible staffing market trends and a white paper on the development of flexible staffing in China with Sino Foreign Management (中外管理), a monthly magazine publisher devoted to professional business management in November 2018. The primary goal of these activities is to enhance our market leading position in flexible staffing services and lead the market development.

Candidates

As of June 30, 2019, we have more than 1,682,000 followers from our WeChat and Weibo social media accounts. We regularly and frequently contact applicants in the group, and providing job updates and recommendations for suitable positions. As the market continues to evolve, we have aligned our marketing strategies with the development of our innovative integrated HR ecosystem.

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We also utilize our Xiang Recruitment App for brand building. For example, we attract and target individual candidates through our diversified marketing channels, such as (i) cooperative advertising with over 20 well-known brands such as Jiayuan with an extensive reach of users; and (ii) collaboration on marketing events and products, such as membership cards and gift vouchers that included our brand logos, with other unicorns to promote and accurately lead their users to our Xiang Recruitment App.

In addition to online marketing, to supplement our overall marketing strategies, we also advertise our brand through traditional marketing channels. For example, our advertisements in Chengdu and Wuhan public transportation services in March and April 2019 have allowed us to attract new registered individual users to our fast growing talent pool.

We evaluate and manage the efficiency and effectiveness of our marketing efforts by comparing our advertising and promotion expenses against the outcome of the event by looking at the number of new registered individual users, number of submitted job applications, number of interviews and placement success rate. We believe that the awareness of our brand in China will continue to improve through our self-promotion and word-of-mouth referral by our extensive network of clients, many of whom have had satisfactory experiences with our services. During the Track Record Period, our total selling and marketing expenses were approximately RMB33.9 million, RMB33.5 million, RMB42.4 million and RMB23.0 million in 2016, 2017, 2018 and the six months ended June 30, 2019, respectively.

PRICING POLICY

Typically, we negotiate pricing with our clients on a case-by-case basis. We determine our pricing policy with consideration given to various factors such as the size of the client, job nature, skill set required, the allocation of our time and resources to provide the required services, payment terms and other specifications of our clients. Our senior management considers that our service fees charged is in the mid- to high-range compared to that of our competitors in the HR services industry. For further details on pricing terms for services provided under our different business segments, please refer to “— Our Business and Operations” in this section.

During the Track Record Period, we did not experience any material pricing fluctuations for our services. In the future, we may revisit our pricing policy based on the market and industry environment as well as client feedback.

SALES AND SUPPORT

We have established brand presence in each of our key regions for our operation. Our team members are well versed in specific HR needs in different industries, including unicorn companies, new economy companies, financial institutions and retail companies. Such expertise and market knowhow enable our salespersons to target the specific needs of our clients and assisting them in choosing the most suitable solution packages which serve the client’s staffing needs.

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Major Client Sales

Our major client sales team of approximately 60 salespersons, as of June 30, 2019, adopts a targeted approach, for instance, when we enter into a new market, we purposefully target the top corporations in the region so that we can effectively penetrate the local market. Once the list of corporations is identified, we contact potential clients via telephone, mobile chat group (e.g. WeChat) and other channels. Salespersons are allocated to cover different geographic locations and expected to acquire new business clients within their respective regions. For our existing clients, dedicated sales team are assigned to provide tailored services. Each region is also supervised by a senior regional manager who will be responsible to review client engagements, cross selling opportunities and generally maintaining our standard of services and business relationships in such geographic regions. Our senior management and regional teams meet up periodically to review our marketing and sales strategies and to devise specific plans for improving our services.

SME Sales

To supplement our targeted sales approach, starting in the last quarter of 2018, we have set up a team of approximately 35 salespersons with the goal of developing new business from small to medium size corporations. Such approach has enabled us to market our comprehensive HR solutions to a wide array of potential clients, as well as expanding our services to industries which we might not have covered with our targeted approach with major clients.

COMPETITION

The HR services industry in China is relatively fragmented, and competition is intense with approximately 36,000 market participants as of June 30, 2019, according to CIC. We compete with both domestic and international HR service providers, and in particular, those in the flexible staffing market. The flexible staffing industry is the fastest growing sector in China’s HR outsourcing industry, and is a new major battlefield for HR service providers. This industry is characterized by a high degree of client stickiness, as companies are more inclined to engage the same flexible staffing provider once a cooperative relationship has been developed, and by the use of advanced technological applications and technological scalability to support the large amounts of administrative tasks and talent management required.

For additional details regarding the competitive landscape of the industry in which we operate, please refer to the sections headed “Industry Overview” and “Risk Factors — Risks relating to Our Business and Our Industry — We face significant competition from other flexible staffing, professional recruitment and HR solutions service providers and may suffer from a loss of clients, registered individual users and contract employees as a result.”

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As evidenced by our market leadership as a flexible staffing provider, we believe that we are able to compete effectively by leveraging our competitive advantages. These include our fast execution and comprehensive HR solutions capabilities that have provided us with a first-mover advantage for serving and building deep relationships with Chinese unicorns, new economy companies, as well as financial institutions. In addition, we also own and operate an innovative integrated HR ecosystem, including a self-developed O2O recruitment platform. These play a significant role in improving client and user satisfaction, retention, and stickiness. Our technological capabilities also enable us to collect, process, and analyze large amounts of data, which in turn facilitates our intelligent matching and smart recommendations, and forms part of the backbone of our operations.

INTELLECTUAL PROPERTY

We believe that our brands together with other intellectual property rights are critical to the success of our business operations, and we protect these through a combination of copyright, trademark and other intellectual property laws as well as confidentiality agreements with our employees, suppliers, clients, service providers, and others. As of the Latest Practicable Date, we had 9 registered trademarks, 47 registered copyrights for software products, and 18 registered domain names that are material to our business, including our primary website www.renhuihr.com. Please refer to the section headed “Statutory and General Information — 2. Material intellectual property rights” in Appendix IV to this document for further details.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims which had any material impact on our Group. Please also refer to the section headed “Risk Factors — Risks Relating to Our Business and Our Industry — We may be vulnerable to intellectual property infringement claims brought against us by others” in this document for further details.

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AWARDS AND RECOGNITION

We have received certain awards and recognitions since our establishment in recognition of the quality of products and services we provide. The following table sets forth some of the awards and recognitions we and our senior management have received during the periods indicated:

Year	Type of Award/ Accreditation	Award / Accreditation	Awarding Organization	Awarded Entity / Product
2019	Company Award/ Accreditation	Beijing Top 50 Human Resources Service Brand Award (北京地區人力資源服務品牌50強京人獎)	Beijing Human Resources Service Award Organizing Committee (北京人力資源服務京人獎組委會)	Company
2019	Company Award/ Accreditation	Excellent Comprehensive Service Provider for Human Resources Development and Management in Enterprises in 2018 (2018年度企業人力資源開發與管理優秀綜合服務供應商)	Chinese Association of Human Resource Development (中國人力資源開發研究會)	Renrui Group
2019	Company Award/ Accreditation	2019 Asia-Pacific Human Resources Development and Service Fair Most Influential Award (2019亞太人力資源開發與服務博覽會最具影響力獎)	Asia-Pacific Human Resources Development and Service Fair Organizing Committee (亞太人力資源開發與服務博覽會組委會)	Mr. JG Zhang
2019	Company Award/ Accreditation	HRSIP Chengdu Star Enterprise Award for Year 2018 (2018年度明星企業獎)	HRSIP Chengdu (中國成都人力資源服務產業園)	Chengdu Tianfu
2018	Company Award/ Accreditation	Top 10 China HR Pioneer for Year 2018 (2018 中國人力資源服務業年度十大人物)	TopHR (第1資源)	Mr. JG Zhang
2018	Client Award/ Accreditation	Quality Service Provider (優質服務供應商)	China United MetLife Insurance Co., Ltd. (中美聯泰大都會人壽保險有限公司)	Chengdu Tianfu
2018	Client Award/ Accreditation	Quality Service Provider (優質服務供應商)	Ping An Puhui Distance Centre Chengdu Branch (平安普惠遠程成都分中心)	Chengdu Tianfu
2018	Client Award/ Accreditation	The Best Human Resources Service Provider for Year 2018	Shenzhen Ping An Integrated Financial Services Limited Chengdu branch (深圳平安綜合金融服務有限公司成都分公司)	Chengdu Tianfu

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Year	Type of Award/ Accreditation	Award / Accreditation	Awarding Organization	Awarded Entity / Product
2018	Client Award/ Accreditation	The Best Human Resources Service Provider for Year 2018	Ping An Puhui New Channel Wuhan Branch (平安惠普新管道武漢分中心)	Renrui Group
2018	Client Award/ Accreditation	The Most Valuable Vendor Award	Concentrix	Chengdu Tianfu
2018	Company Award/ Accreditation	Top 30 China Outstanding Human Resources Service Provider (2018中國HR好服務Top 30 優秀服務機構)	The 9th Beijing Human Resources Expo (第九屆(北京)人力資源博覽會) Beijing Youth Human Resources Service Chamber of Commerce (北京青年人力資源服務商會) SanRenXing HR Public Service Alliance (三人行HR公益服務聯盟)	Renrui Group
2018	Client Award/ Accreditation	The Most Potential Recruitment Supplier Award (成都龍湖物業最具潛力招聘供應商)	Chengdu LongHu Property Service Human Resource Department (成都龍湖物業人力資源部)	Chengdu Tianfu
2017-2018	Company and Technology Award/ Accreditation	Software Enterprise Accreditation	Shanghai Software Industry Association	Shanghai Renrui
2017	Company Award/ Accreditation	HRSIP Chengdu Hi-Tech Industrial Development Zone Star Enterprise Award for Year 2017 (2017年度明星企業獎)	HRSIP Chengdu Hi-Tech Industrial Development Zone Committee (中國成都人力資源服務產業園) 中共中國成都人力資源服務產業園(高新區) 綜合委員會	Xinan Renrui
2017-2022	Company and Technology Award/ Accreditation	Software Product Accreditation for Renrui Recruiter Human Resources Management Software V2.0	Shanghai Software Industry Association	Shanghai Renrui
2017-2020	Company and Technology Award/ Accreditation	High-Tech Enterprise Accreditation	Shanghai Municipal Tax Service State Administration of Taxation Shanghai Municipal Administration of Local Taxation Shanghai Municipal Science and Technology Commission	Shanghai Renrui

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Year	Type of Award/ Accreditation	Award / Accreditation	Awarding Organization	Awarded Entity / Product
2017	Company Award/ Accreditation	Top 100 Human Resources Service Providers in Shanghai for Year 2016	Shanghai Human Resources Consulting Association	Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司)
2017	Company Award/ Accreditation	Top 20 Human Resources Service Providers	Guangdong Academy of Human Resources	Guangzhou Renrui Human Resources Service Co., Ltd. (廣州人瑞人力資源服務有限公司)
2017	Company Award/ Accreditation	Certificate of Membership	Shanghai Pudong New Area Association of Enterprises with Domestic Investment Shanghai Municipal Finance Bureau	Shanghai Renrui
2017	Company Award/ Accreditation	Top 100 Shortlisted Non-public Enterprises Performing Social Responsibilities in Beijing for Year 2016 (2016年度北京非公有製企業履行社會責任百家上榜入圍單位)	Beijing Municipal Social Work Committee (中國北京市委社會工作委員會) The Research Institute of Beijing New Economic Organization Development Qianlong (千龍網)	Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司)
2017	Company Award/ Accreditation	Certificate of Member Unit	Chengdu Hi-Tech Zone Human Resource Association	Chengdu Tianfu
2016	Company Award/ Accreditation	Shanghai Famous Brand in year 2016 - 1tJob.com	Shanghai Famous Brand Nomination Committee (上海市名牌推薦委員會)	Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司)
2016-2019	Company Award/ Accreditation	Vice President of Expert Committee for China Association of Trade in Services	Expert Committee for China Association of Trade in Services	Mr. JG Zhang
2016	Company Award/ Accreditation	Activity Base for Members of Guangzhou District Suiyuan Human Resources Officer Association (廣州市穗源企業人力資源管理師協會會員活動基地)	Guangzhou District Suiyuan Human Resources Officer Association (廣州市穗源企業人力資源管理師協會)	Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司)

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Year	Type of Award/ Accreditation	Award / Accreditation	Awarding Organization	Awarded Entity / Product
2016	Company Award/ Accreditation	CCM China Best Customer Service Center (中國最佳客戶中心)	中國呼叫中心與電子商務發 展研究院 (CICED) 中國呼叫中心產業能力建設 管理規範工作組 (CNCCS) ContactCentreWorld CCMWorld Group Customer Center — Capability Maturity Model	Renrui Group
2016	Company Award/ Accreditation	China Outsourcing Service Innovation Individual Award for Year 2015 - 2016 (2015-2016年 度中國服務外包創新人物)	Expert Committee for China Association of Trade in Services	Mr. JG Zhang
2016	Company Award/ Accreditation	China Outsourcing Service Innovation Enterprise Award for Year 2015 - 2016 (2015-2016年 度中國服務外包創新型企業)	Expert Committee for China Association of Trade in Services	Renrui Group
2016-2019	Company Award/ Accreditation	Vice President Company of Expert Committee for China Association of Trade in Services	Expert Committee for China Association of Trade in Services	Renrui Group
2016	Company Award/ Accreditation	Guangdong Outsourcing Outstanding Personal Achievement Award for Year 2015	Guangdong Service Outsourcing Industry Association	Mr. JG Zhang
2016	Company Award/ Accreditation	Asia-Pacific Human Resources Service Entrepreneurship Award	2016 Asia-Pacific Human Resources Development and Service Fair Organizing Committee	Renrui Group
2016	Company Award/ Accreditation	Top 100 Human Resources Service Providers in Shanghai for Year 2015	Shanghai Human Resources Consulting Association	Shanghai Renrui
2016	Company and Technology Award/ Accreditation	Certificate of Conformity of Quality Management System Certification	Guangdong Zhongjian Certification Co., Ltd	Guangzhou Renrui Human Resource Service Co., Ltd. (廣州人瑞人力資源服務 有限公司)
2015-2016	Company Award/ Accreditation	Certificate of Member Unit	Guangzhou Service Outsourcing Industry Association	Guangzhou Renrui Human Resource Service Co., Ltd. (廣州人瑞人力資源服務 有限公司)

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PROPERTIES

Our headquarters are located at No. 601, 602, 603, 6th Floor, Block 3, No. 688 Mid-section Tianfu Avenue Chengdu High-tech Zone, Free Trade Pilot Zone, Sichuan, China. As of the Latest Practicable Date, we did not own any properties and operated our businesses through 35 leased properties across China with a total gross floor area of approximately 17,800 sq.m.. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises and for recruitment events for our business operations. Even if we experience temporary interruption in our leases, our employees can continue to carry out the material aspects of our operation remotely with support from other locations. Our servers and network facilities for our technology and information systems are currently located in Shanghai, with a dedicated data storage server located in Beijing.

The relevant lease agreements we have entered into have expiration dates ranging from November 2019 to June 2024, some of which have renewal options. We believe that there is sufficient supply of properties in China and we will take active steps to discuss with the relevant lessors to renew or replace leases that are about to expire. Therefore, we do not rely on the existing leases for our business operations.

As of the Latest Practicable Date, lessors of two of our leased properties in China or 4.2% of the total gross floor area of our leased properties had no valid title certificates or proof of ownership. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties. If the lessors do not have the rights to rent these buildings and are challenged by the owner of the buildings, we may have to bear additional expenses, which would primarily consist of relocation costs. If relocation is required, we believe that we will be able to relocate our office premises quickly without incurring material relocation costs or causing any material disruption to our operations, given the supply of alternative properties with similar rents and facilities to our existing offices. Our Directors believe relocation of any of these office premises, if required, would not individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. We have also implemented enhanced internal control measures, such as requiring provision of title documents or other valid authorization from landlords prior to leasing properties.

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not obtained lease registrations for 30 properties we leased in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that the unregistered leases are registered. As advised by our PRC legal advisors, the validity of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. According to the relevant PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we

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had not received any such request or suffered any such fine from the relevant government authorities, and the estimated total maximum penalty was RMB300,000. For further details, please refer to the section headed “Risk Factors — We face certain risks relating to the real properties that we lease” in this document.

As of the Latest Practicable Date, we did not own any properties. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group’s interests in land or buildings.

INSURANCE

We maintain various insurance policies, such as group personal accident insurance and corporate employee benefits insurance. We do not maintain business interruption insurance, product liability insurance, key-man life insurance, and insurance covering damages to our network infrastructures or information technology systems or property. We consider our insurance coverage to be generally in line with companies of similar size in the same industry in China. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Our Industry — We have limited business insurance coverage” in this document for details of risks associated with our insurance coverage.

LICENCES AND PERMITS

As of the Latest Practicable Date, we have obtained all material licences, permits, approvals and certificates necessary to conduct our operations in all material respects from the relevant government authorities in the PRC, and such licences, permits, approvals and certificates remains in full effect.

The table below sets forth details of our material licences and permits in full effect:

Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Value-added telecommunications business licence of the People’s Republic of China	Shanghai Renrui	Shanghai Communications Administration (上海市通信管理局)	March 8, 2019	November 22, 2020
Value-added telecommunications business licence of the People’s Republic of China	Beijing Ruilian	Ministry of Industry and Information Technology of the People’s Republic of China	September 14, 2018	September 14, 2023

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Value-added telecommunications business licence of the People's Republic of China	Liaoning Renrui	Ministry of Industry and Information Technology of the People's Republic of China	September 14, 2018	September 14, 2023
Labor Dispatch Operation Permit.	Chengdu Tianfu	Chengdu Hi-tech Industrial Development Area Community Governance and Business Bureau (成都高新技術產業開發區基層治理和社會事業局)	September 25, 2017	September 24, 2020
Labor Dispatch Operation Permit.	Shanghai Renrui	Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局)	June 24, 2019	August 11, 2022
Labor Dispatch Operation Permit	Beijing Ruilian	Beijing Haidian Human Resources and Social Security Bureau (北京市海澱區人力資源和社會保障局)	March 19, 2019	March 18, 2022
Labor Dispatch Operation Permit.	Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司)	Guangzhou Yuexiu District Human Resources and Social Security Bureau (廣州越秀區人力資源和社會保障局)	September 29, 2016 (Effective from November 25, 2016)	November 24, 2019
Labor Dispatch Operation Permit.	Guangzhou Renrui	Foshan Chancheng District Human Resources and Social Security Bureau (佛山市禪城區人力資源和社會保障局)	December 5, 2018	November 24, 2019
Labor Dispatch Operation Permit.	Suzhou Renrui Puhui Human Resources Services Co., Ltd. (蘇州人瑞普惠人力資源服務有限公司)	Changshu Municipal Human Resources and Social Security Bureau (常熟市人力資源和社會保障局)	September 29, 2018 (Effective from January 19, 2017)	January 18, 2020

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Labor Dispatch Operation Permit. . . .	Xinan Renrui	Chengdu Hi-tech Industrial Development Area Community Governance and Business Bureau (成都高新技術產業 開發區基層治理和社 會事業局)	September 28, 2018	September 27, 2021
Labor Dispatch Operation Permit. . . .	Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源 服務有限公司)	Beijing Haidian Human Resources and Social Security Bureau (北京市海淀 區人力資源和社會保 障局)	September 1, 2017	August 31, 2020
Labor Dispatch Operation Permit. . . .	Beijing Renrui Human Resources Services Co., Ltd. Jinan Branch (北京 人瑞人力資源服務有 限公司濟南分公司)	Jinan Hi-tech Industrial Development Area Management Committee Community Governance and Business Bureau (濟南高新技術產業 開發區管理委員會社 會事務局)	Filing Date: February 22, 2019	
Labor Dispatch Operation Permit. . . .	Qingdao Renrui Human Resources Services Co., Ltd. (青島人瑞人力資源 服務有限公司)	Qingdao Shibei District Human Resources and Social Security Bureau (青島市市北 區人力資源和社會保 障局)	February 28, 2019	February 27, 2022
Labor Dispatch Operation Permit. . . .	Tianjin Renrui Human Resources Services Co., Ltd. (天津人瑞人力資源 服務有限公司)	Tianjin Municipal Human Resources and Social Security Bureau (天津市人力 資源和社會保障局)	July 18, 2017	July 17, 2020
Labor Dispatch Operation Permit. . . .	Hangzhou Renrui Human Resources Services Co., Ltd. (杭州人瑞人力資源 服務有限公司)	Hangzhou Jiangan District Human Resources and Social Security Bureau (杭州市江幹 區人力資源和社會保 障局)	October 25, 2017	October 24, 2020

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Labor Dispatch Operation Permit. . . .	Liaoning Renrui Puhui Human Resources Services Co., Ltd. (遼寧人瑞普惠人力 資源服務有限公司)	Yingkou Municipal Administrative Approval Bureau (營口市行政審批局)	November 5, 2018	November 4, 2021
Labor Dispatch Operation Permit. . . .	Liaoning Renrui Yongdao Human Resources Services Co., Ltd. (遼寧人瑞永道人力 資源服務有限公司)	Yingkou Municipal Administrative Approval Bureau (營口市行政審批局)	November 5, 2018	November 4, 2021
Labor Dispatch Operation Permit. . . .	Ningbo Renrui Human Resources Services Co., Ltd. (寧波人瑞人力資源 服務有限公司)	Ningbo Beilun District Human Resources and Social Security Bureau (寧波市北侖 區人力資源和社會保 障局)	December 11, 2018	December 10, 2021
Labor Dispatch Operation Permit. . . .	Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源 服務有限公司)	Shanghai Municipal Human Resources and Social Security Bureau (上海市人力 資源和社會保障局)	July 1, 2019	August 28, 2022
Labor Dispatch Operation Permit. . . .	Nanjing Renrui Labour Services Co., Ltd. (南京人瑞 勞務有限公司)	Nanjing Municipal Human Resources and Social Security Bureau (南京市人力 資源和社會保障局)	January 11, 2019	January 10, 2022
Labor Dispatch Operation Permit. . . .	Shenzhen Renrui Human Resources Services Co., Ltd. (深圳人瑞人力資源 服務有限公司)	Shenzhen Nanshan District Human Resources Bureau (深圳市南山區人力 資源局)	August 13, 2018	August 12, 2021
Labor Dispatch Operation Permit. . . .	Suzhou Renrui Yongdao Human Resources Services Co., Ltd. (蘇州人瑞永道人力 資源服務有限公司)	Changshu Municipal Human Resources and Social Security Bureau (常熟市人力 資源和社會保障局)	April 25, 2017	April 24, 2020

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Labor Dispatch Operation Permit	Chongqing Renrui Human Resources Services Co., Ltd. (重慶人瑞人力資源 服務有限公司)	Chongqing Yuzhong District Human Resources and Social Security Bureau (重慶市渝中 區人力資源和社會保 障局)	May 12, 2017	May 12, 2020
Labor Dispatch Operation Permit	Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源 服務有限公司)	Wuhan Wuchang District Administrative and Approval Authority (武漢市武昌區行政 審批局)	September 26, 2017	September 25, 2020
Labor Dispatch Operation Permit	Shangrao Renrui Human Resources Services Co., Ltd. (上饒市人瑞人力資 源服務有限公司)	Shangrao Human Resources and Social Security Bureau (上饒市人力 資源和社會保障局)	March 11, 2019	March 10, 2022
Labor Dispatch Operation Permit	Xian Renrui Human Resources Services Co., Ltd. (西安人瑞人力資源 服務有限公司)	Xi'an Municipal Human Resources and Social Security Bureau (西安市人力 資源和社會保障局)	June 29, 2017	June 28, 2020
Human Resources Service Permit	Chengdu Tianfu	Chengdu Human Resources and Social Security Bureau (成都市人力 資源和社會保障局)	April 30, 2018	April 29, 2022
Human Resources Service Permit	Shanghai Renrui	Shanghai Jing'an District Human Resources and Social Security Bureau (上海市靜安 區人力資源和社會保 障局)	April 10, 2019	April 10, 2024
Human Resources Service Permit	Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源 服務有限公司)	Guangzhou Yuexiu District Human Resources and Social Security Bureau (廣州越秀區 人力資源和社會保障 局)	November 28, 2018	November 27, 2021

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Human Resources Service Permit	Suzhou Renrui Puhui Human Resources Services Co., Ltd. (蘇州人瑞普惠人力資源服務有限公司)	Changshu Municipal Human Resources and Social Security Bureau (常熟市人力資源和社會保障局)	January 19, 2017	January 18, 2020
Human Resources Service Permit	Xinan Renrui	Chengdu Hi-tech Industrial Development Area Community Governance and Business Bureau (成都高新技術產業開發區基層治理和社會事業局)	April 8, 2019	April 7, 2024
Human Resources Service Permit	Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司)	Beijing Haidian Human Resources and Social Security Bureau (北京市海澱區人力資源和社會保障局)	March 31, 2019	March 31, 2024
Human Resources Service Permit	Hefei Renrui Human Resources Services Co., Ltd. (合肥人瑞人力資源服務有限公司)	Hefei Baohe District Human Resources and Social Security Bureau (合肥市包河區人力資源和社會保障局)	November 6, 2017	November 5, 2020
Human Resources Service Permit	Qingdao Renrui Human Resources Services Co., Ltd. (青島人瑞人力資源服務有限公司)	Qingdao Shibei District Human Resources and Social Security Bureau (青島市市北區人力資源和社會保障局)	February 28, 2019	February 27, 2022
Human Resources Service Permit	Tianjin Renrui Human Resources Services Co., Ltd. (天津人瑞人力資源服務有限公司)	Tianjin Municipal Human Resources and Social Security Bureau (天津市人力資源和社會保障局)	May 22, 2018	May 21, 2023
Human Resources Service Permit	Hangzhou Renrui Human Resources Services Co., Ltd. (杭州人瑞人力資源服務有限公司)	Hangzhou Jianggan District Human Resources and Social Security Bureau (杭州市江幹區人力資源和社會保障局)	May 6, 2019	October 31, 2020

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Human Resources Service Permit	Liaoning Renrui Puhui Human Resources Services Co., Ltd. (遼寧人瑞普惠人力資源服務有限公司)	Yingkou Municipal Administrative Approval Bureau (營口市行政審批局)	November 5, 2018	November 4, 2021
Human Resources Service Permit	Liaoning Renrui Yongdao Human Resources Services Co., Ltd. (遼寧人瑞永道人力資源服務有限公司)	Yingkou Municipal Administrative Approval Bureau (營口市行政審批局)	November 5, 2018	November 4, 2021
Human Resources Service Permit	Ningbo Renrui Human Resources Services Co., Ltd. (寧波人瑞人力資源服務有限公司)	Ningbo Beilun District Human Resources and Social Security Bureau (寧波市北侖區人力資源和社會保障局)	August 21, 2018	August 20, 2021
Human Resources Service Permit	Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司)	Shanghai Chongming District Human Resources and Social Security Bureau (上海市崇明區人力資源和社會保障局)	April 10, 2019	April 10, 2024
Human Resources Service Permit	Nanjing Renrui Labour Services Co., Ltd. (南京人瑞勞務有限公司)	Nanjing Jiangbei New Area Management Committee Community Governance and Business Bureau (南京市江北新區管理委員會社會事業局)	Not specified (Effective from January 25, 2019)	January 24, 2022
Human Resources Service Institutional Filing Certificate	Shenzhen Renrui Human Resources Services Co., Ltd. (深圳人瑞人力資源服務有限公司)	Shenzhen Nanshan District Human Resources Bureau (深圳市南山區人力資源局)	June 20, 2018	June 19, 2020
Human Resources Service Permit	Suzhou Renrui Yongdao Human Resources Services Co., Ltd. (蘇州人瑞永道人力資源服務有限公司)	Changshu Municipal Human Resources and Social Security Bureau (常熟市人力資源和社會保障局)	April 25, 2017	April, 24, 2020

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Licence/Permit	Holder	Granting authority	Grant date	Expiry date
Human Resources Service Permit	Suzhou Renrui Yongdao Human Resources Services Co., Ltd. Quzhou Branch (蘇州人瑞永道人力資源服務有限公司衢州分公司)	Quzhou Municipal Human Resources and Social Security Bureau (衢州市人力資源和社會保障局)	August 21, 2018	August 21, 2020
Human Resources Service Permit	Chongqing Renrui Human Resources Services Co., Ltd. (重慶人瑞人力資源服務有限公司)	Chongqing Yuzhong District Human Resources and Social Security Bureau (重慶市渝中區人力資源和社會保障局)	September 18, 2017	September 18, 2020
Human Resources Service Permit	Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司)	Wuhan Wuchang District Administrative and Approval Authority (武漢市武昌區行政審批局)	September 26, 2017	September 25, 2020
Human Resources Service Permit	Xian Renrui Human Resources Services Co., Ltd. (西安人瑞人力資源服務有限公司)	Xi'an Municipal Human Resources and Social Security Bureau (西安市人力資源和社會保障局)	August 6, 2019	August 5, 2024
Human Resources Service Permit	Shangrao Renrui Human Resources Services Co., Ltd. (上饒市人瑞人力資源服務有限公司)	Shangrao Xinzhou District Human Resources and Social Security Bureau (上饒市信州區人力資源和社會保障局)	March 4, 2019	March 3, 2022

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Due to the nature of our business, we do not operate any production facilities. Therefore, we are not subject to material health, safety or environmental risks nor do we expect we will incur any material liabilities in these regards which could have any material adverse impact on our business and operating results. Some of our contract employees are deployed to positions such as delivery riders and drivers. We have implemented various measures to protect their personal safety and we also purchase accident insurance for them. In addition, in our standard contracts with our flexible staffing services clients, our clients are obligated to compensate contract employees for any financial loss or physical harm which do not arise from negligence or wilful disregard of danger of the contract employees. To ensure compliance with applicable laws and regulations, we would, if necessary and after consultation with our legal advisors,

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adjust our HR policies to accommodate any material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we were subject to and settled, six claims relating to infringement or other intellectual property disputes amounting to RMB127,900 in aggregate. These claims against our Group were legal proceedings or complaints brought by third-party copyright owners relating to the unauthorized use of their articles or photos on our Xiang Recruitment Platform. Four of these six disputes were settled for amounts under RMB10,000 each. The remaining two cases were settled by entering into photo purchasing agreements with the two claimants for RMB58,900 and RMB50,000, respectively. In order to mitigate the occurrence of future intellectual property disputes, we have implemented internal controls measures including (i) disabling certain sections of our Xiang Recruitment app that allowed external users to upload and post articles and images; (ii) entering into agreements with image sources for proper supply of images; (iii) requiring review from the legal department before use of images purchased from stock photo websites; (iv) providing training to internal employees on intellectual property rights and risks; (v) screening and monitoring of content regularly by our internal employees, and (vi) assessing account user rights and settings periodically to ensure these are in line with business needs.

During the Track Record Period and up to the Latest Practicable Date, except for those disclosed in “— Our Employees — Employee relations” in this section and “Risk Factors — Failure to fully comply with the relevant PRC laws and regulations in respect of contributions to various employee benefit plans may materially and adversely affect our financial condition and results of operations” in this document, we did not commit any material or systemic non-compliance of the laws or regulations which taken as a whole, in the opinion of our Directors, are likely to have a material and adverse effect on our business, financial condition or results of operations. During the same periods, we also did not experience any material non-compliance of the laws or regulations, which taken as a whole, in the opinion of our Directors, reflect materially and negatively on the ability or tendency of our Company, our Directors or our senior management, to operate our business in a compliant manner. Except for those disclosed in “— Our Employees — Employee relations” in this section and “Risk Factors — Failure to fully comply with the relevant PRC laws and regulations in respect of contributions to various employee benefit plans may materially and adversely affect our financial condition and results of operations” in this document, we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

As of the Latest Practicable Date, no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on our results of operations or financial condition.

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RISK MANAGEMENT AND INTERNAL CONTROL

We recognize that the industry in which we operate is competitive and our business is exposed to various risks, and as such, risk management is essential to our growth and success. For further details of major risks identified by our management, please refer to the section headed “Risk Factors” in this document. We have implemented various risk management policies and measures to identify, assess, and manage risks arising from our operations. Details on risk categories identified by our management, internal and external reporting mechanisms, remedial measures, and contingency management have also been codified in our policies.

We have implemented various policies and procedures to ensure effective risk management at each stage of our operations, and have established the following risk management structures and measures:

Information system risk management

During the Track Record Period, we have not experienced any material disruption to our information and technology system due to malfunctioning of software or hardware. To avoid any service interruption due to power outage, our offices and dedicated storage server are equipped with uninterruptible power supply (UPS) apparatuses and can provide emergency power support for up to one hour. We maintain and update our core system on a weekly basis. We also have a dedicated team of engineers to debug, upgrade and generally maintain the reliability and also security of our system. If there is a need for system debugging, our team of engineers can typically complete the task within one hour. Benefiting from an experienced team led by one of our Founders and Chief Operating Officer, Mr. F Zhang, we believe we have built our technology infrastructure system according to a high industry standard and this cannot be easily replicated by our competitors.

Data security

We collect a substantial amount of personal data relating to our growing pool of candidates for our HR services, including names, phone numbers, mailing addresses and specific information and preferences relating to the candidates, such as past work history, education and other background information. The candidates’ personal data is only received and collected by us after the candidate registers as a user through the Xiang Recruitment App with clear consent to our user agreement and privacy policy and submits his or her details. Our user agreement sets out the terms and conditions for how we collect personal data as well as how it will be handled, stored and used. For our clients and suppliers, we also store all past contracts. As such, we have adopted robust internal control measures to ensure the security and confidentiality of our data system:

- **Right to access:** Access to data is restricted to a need-to-know basis. For example, users are assigned to different security clearance levels for uploading and downloading data from our system. Furthermore, our system is designed to allow access only from pre-authorized IP locations. Lastly, visitor logs embedded in our system track all access and usage of visitors to our website. We constantly update and maintain policies relating to data access in our key business activities.

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Some third parties, including our clients and candidates, are given limited access to certain personal data in order for us to render our services. For instance, our flexible staffing service clients can access personal data of those contract employees assigned to their projects, and our professional recruitment service clients are granted limited access to candidate information of our talent pool, within the scope of consent under the user agreements and user privacy policy or further obtained from the owner of such information. We set out standard confidentiality provisions or use separate confidentiality agreements when we contract with third parties, which require these third parties to maintain the security and confidentiality of such personal information, and on some occasions, return or destroy such confidential information including personal data in their possession upon our request.

- **Data storage and backup:** We have one dedicated storage server currently located in our Shanghai office with system backup on a daily basis in order minimize the risk of data loss or leakage, as well as an off-site backup storage server in Beijing with weekly data backup. Our database has been encrypted and our policies have been designed to prevent any unauthorized member of the public or third parties from accessing or using our data in any unauthorized manner. To safeguard our operation and data system, we have in place two separate systems for applications and data, each walled-off from the other so that the integrity of our data can be preserved without interfering with our daily operations. Our computer system and information processing facilities are protected by firewalls and anti-virus software to prevent and detect threats by computer viruses and other malicious software.
- **Physical security of the data system:** We host a server room in an independent area isolated from the employee office area in our Shanghai office. Access to the server room is limited, and only authorized IT personnel responsible for its operation and maintenance are granted entry. Closed-circuit monitoring has been installed for the server room. Off-site backup has been implemented for all data on a weekly basis to our dedicated data storage server in Beijing. We have established secured communication channels using our VPN connections for data transmission between operation sites and our own data storage site. To ensure the integrity of our client information and user data, we do not use third party server for data storage.

We have taken various measures to ensure the collection, storage and use of our user data are in compliance with applicable laws and regulations. For example, our user agreements clearly specify the rules, purposes, methods and scope of our collection and use of users' data. By acknowledging the terms and conditions of the user agreement, our users provide consent to our collection, use and disclosure of their data subject to the limitations set forth therein. Upon a user's deregistration with our online platform, we will terminate our use of the personal data of such user as required by applicable PRC laws and regulations, other than data that has been processed by us and hence can no longer be linked to the identity of such deregistered user. Our collection, use and disclosure of employees' or job candidates' personal data are for the purposes consented to by the data subject, who provided the relevant data and remain the owner of such data, and the personal data will not be utilized for any other purposes without their prior consent. We do not set a fixed duration for how long the personal data will be kept on our system. Therefore, unless the owner of the data requests for

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deletion or such data has become obsolete, we will continue to maintain this data in accordance with our policy to ensure security and confidentiality. We generally retain data in relation to users’ search and browsing history for about two months. According to the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), Internet service providers including us are required to take proper measures including keeping records of certain information about their users for at least 60 days. We comply with these requirements, taking measures to keep cyber-related logs with user information, including registration details, IP addresses, user-uploaded content and time of posts, for at least 60 days.

We also have various internal control measures to ensure the security and confidentiality of the data, including personal data of individuals and other customer information. In addition to restricting how personal data and client information can be obtained, stored and used, as well as restricting access by assigning different security clearance levels, our IT department will also conduct system checks, review account information and require account passwords to meet a certain level of complexity for security purposes. In addition, they will also monitor access rights to confirm that each is in line with business needs and in the event of a remote login, a text message will be sent to relevant personnel, including IT personnel and project managers. Our employees who are given access to data on a need-to-know basis are required to adhere to all relevant laws and regulations in relation to the data privacy protection. During the Track Record Period, we have not been in material breach of any PRC laws or regulations in relation to the privacy and personal information protection during our collection, use, disclosure and protection of personal information. During the Track Record Period and as of the Latest Practicable Date, we have not received any complaints from any third party, or been involved in any dispute with any third party, or been investigated or punished by any competent authority in relation to privacy and personal information protection.

Our PRC Legal Advisor is of the view that our collection, use, disclosure and security of personal information as described above and internal control measures undertaken by the Company were not in violation of any PRC laws or regulations in any material aspects during the Track Record Period.

Payment and payroll cycle

At each monthly payroll cycle, we generally make payments to our contract employees for their salaries, benefits, social insurance and housing provident fund contributions. Before these payments are made, we have measures in place to confirm whether the relevant payments have been received from our clients for the period these contract employees were working on their assignments. As time is required for checking of invoices, calculation of payroll, and processing of payments, we generally structure our monthly invoice, client payment, and contract employee payroll schedule in such a way as to have clients settle invoices before salaries are to be paid to our contract employees. For some flexible staffing clients, we will also require a risk deposit or an upfront payment. We typically grant a credit period of 10 to 70 days to our clients based on the client’s creditworthiness, prior payment history and additional client-specific information. Please refer to the section headed “Financial

BUSINESS

Information — Discussion of Certain Items From the Consolidated Balance Sheets — Trade Receivables and Notes” in this document for further details. If any client has delayed or failed to make payment, this will be flagged in our system and dedicated personnel will follow up with the relevant client.

In addition, we also face numerous market risks, such as interest rate, credit, liquidity and currency risks that arise in the ordinary course of our business. For a discussion on these market risks, please refer to the section headed “Financial Information — Quantitative and Qualitative Disclosures about Market Risk” in this document.

Committees

Our Board oversees and manages the overall risk in our operations. We have designated responsible personnel to monitor our ongoing compliance with relevant laws and regulations that govern our business operations, and to oversee the implementation of any necessary measures. Meanwhile, we plan to provide our Directors, senior management and relevant employees with continuing training programs and updates regarding the relevant laws and regulations on a regular basis, with a view to proactively identifying any concerns or issues relating to any potential non-compliance.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will adopt, among other things, the following risk management and internal control measures:

- the establishment of an audit committee responsible for overseeing our financial records, internal control procedures and risk management systems. See the section entitled “Directors and Senior Management — Board Committee — Audit Committee” in this document for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee;
- the appointment of Mr. Li and Ms. Siu as our joint company secretaries to ensure the compliance of our operation with relevant laws and regulations. For their biographical details, see the section entitled “Directors and Senior Management” in this document;
- the appointment of Founder Securities (Hong Kong) Capital Company Limited as our compliance adviser upon the [REDACTED] to advise us on compliance with the Listing Rules; and
- the engagement of external legal advisors to advise us on compliance with the Listing Rules and to ensure our compliance with relevant regulatory requirements and applicable laws, where necessary.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Over the course of our business history, our Founders have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries. As we were a group of private entities in the past, these arrangements were not formalized in writing, and each of our Founders was content with such arrangement based on the trust and confidence they have in each other.

On January 18, 2019, in preparation for the [REDACTED], our Founders executed an acting in concert deed, whereby they have confirmed since the time when they have contemporaneously become the legal and/or beneficial owners of shares or equity interests (as the case may be) in Ming Feng and any of the members of our Group, they have been and will continue to be acting in concert (as such term is defined in the Takeovers Code) with each other in respect of all major management matters, business decisions (including but not limited to financial and operational matters), and all matters being the subject matters of any shareholders’ resolution of such companies.

Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang, through Ming Feng, Wu Fu Min Feng and Lin Feng, respectively, will be entitled to control an aggregate of approximately [REDACTED]% of the issued share capital of our Company immediately upon the completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). As such, the Founders, Ming Feng, Wu Fu Min Feng and Lin Feng will together constitute a group of Controlling Shareholders within the meaning of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently of our Controlling Shareholders and his/her/its close associates after the [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management of our Company. Upon the [REDACTED], our Board will consist of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. For further information, please refer to the section headed “Directors and Senior Management” in this document.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions. In addition, the interested Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or she or any of his/her close associates (as defined in the Articles) is materially interested except for certain circumstances as set out in the Articles. For details, please see the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law and Taxation” in Appendix III to this document;
- (c) even though our Founders have overlapping directors and/or management roles in companies in which they are interested which are not within our Group, our Directors believe that our Board and senior management will function independently from our Controlling Shareholders on the basis that these companies are merely investment holding companies for holding equity interests in our Group or they are dormant companies. Each of our Founders confirms that their respective involvement and/or interests in these investment holding companies and dormant companies will not affect the discharge of their respective duties to our Group;
- (d) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see “— Corporate Governance Measures” in this section below for details; and
- (e) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review.

Based on the above, our Directors believe that our Board and senior management are able to perform the managerial role in our Group independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational Independence

Our Group is not operationally dependent on our Controlling Shareholders. Our Company (through our subsidiaries and our Consolidated Affiliated Entities) holds all the relevant licences and owns all the relevant intellectual properties necessary to carry on our businesses. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our clients and an independent management team to operate our business.

In addition, pursuant to the Modified Contractual Arrangements, our Directors are authorized to exercise all of the rights of the shareholders of our Consolidated Affiliated Entities, and our Group is entitled to enjoy all the economic benefits of our Consolidated Affiliated Entities and to exercise management control over the operations of our Consolidated Affiliated Entities. Pursuant to the Exclusive Option Agreement, Chengdu Qicheng WFOE (or its designated third party) has been granted an exclusive, unconditional and irrevocable option to purchase from the Registered Shareholders all or part of the equity interest in and/or the relevant assets of Chengdu Tianfu at the lowest price permitted under the PRC laws and regulations.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. More importantly, we have been and are capable of obtaining equity and debt financing from third parties.

During the Track Record Period, there were certain non-trade amounts due to Mr. JG Zhang or his close associates, and guarantees provided in favour of our Group by our Founders. Please see notes 28 and 32 to the Accountant’s Report in Appendix I to this document and the sections headed “Financial Information — Related-Party Transactions” and “Financial Information — Indebtedness” in this document for further details. All the aforesaid amounts due from Mr. JG Zhang or his close associates, and guarantees provided in favour of our Group by our Founders, had been fully repaid or released as of the Latest Practicable Date. Our Directors confirm that our Group does not intend to obtain any borrowing or guarantee from any of our Controlling Shareholders or entities controlled by our Controlling Shareholders.

Based on the above, our Directors are of the view that our Board and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and his/her/its close associates after the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONFIRMATION PURSUANT TO RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We will adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his/her/its associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his/her/its associates, our Company will comply with the applicable Listing Rules;
- (c) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements;
- (d) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses;
- (e) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders, and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (f) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the purpose of their annual review referred to in paragraph (e) above; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (g) we have appointed Founder Securities (Hong Kong) Capital Company Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into the Modified Contractual Arrangements with our connected persons and the transactions contemplated under the Modified Contractual Arrangements will constitute non-exempt continuing connected transactions, which are subject to reporting, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules upon the [REDACTED]. Set out below are the details of the continuing connected transactions and the relevant Listing Rules implications.

Background of the Modified Contractual Arrangements

We conduct part of our businesses through our Consolidated Affiliated Entities under the Modified Contractual Arrangements entered into between, among others, Chengdu Qicheng WFOE, Chengdu Tianfu and the Registered Shareholders. Through the Modified Contractual Arrangements, we exercise effective control over the operations of our Consolidated Affiliated Entities. The Modified Contractual Arrangements enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by Chengdu Qicheng WFOE to our Consolidated Affiliated Entities; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in and/or assets of Chengdu Tianfu when and to the extent permitted by PRC laws. Please see the section headed “Contractual Arrangements” in this document for details.

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” the Consolidated Affiliated Entities are treated as the Company’s wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company’s “connected persons”.

Principal Terms of the Transactions

The Modified Contractual Arrangements comprise the following agreements: the Exclusive Services Agreement, the Exclusive Option Agreement, the Share Pledge Agreement, the Exclusive Business Operation Agreement (including Powers of Attorney) and the Spouses’ Undertakings. Details of the continuing connected transactions (i.e. the transactions contemplated under the said agreements which constitute the Modified Contractual Arrangements) entered into between the relevant connected persons and our Group are set out in the section headed “Contractual Arrangements” in this document.

CONNECTED TRANSACTIONS

Listing Rules Implications

The transactions contemplated under the Modified Contractual Arrangements are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of such transactions under the Modified Contractual Arrangements are, on an annual basis, expected to be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, a continuing connected transaction should be for a duration of no longer than three years except in special circumstances. It is appropriate for the Modified Contractual Arrangements to be for a term of more than three years for the following reasons:

- (1) the duration of the Modified Contractual Arrangements is inherently beneficial to our Group as it allows us to ensure that the financials and operation of our Consolidated Affiliated Entities can be effectively controlled by Chengdu Qicheng WFOE, while Chengdu Qicheng WFOE can obtain the economic benefits derived from our Consolidated Affiliated Entities, and also prevent any possible leakage of assets and values of our Consolidated Affiliated Entities on an uninterrupted basis; and
- (2) the duration of the Modified Contractual Arrangements provides comfort, protection, and stability to us in relation to the operation of our Consolidated Affiliated Entities, enabling us to plan and invest over the longer term.

Based on the above, the Directors are of the view, and the Sole Sponsor concurs, that it is justifiable and normal business practice for agreements of this type to be of a term of more than three years.

Conditions for Waiver

In relation to the Modified Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Modified Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, and (ii) the requirement of setting an annual cap for the transactions under the Modified Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) *No change without independent non-executive Directors’ approval*

No change to the terms of any of the agreements constituting the Modified Contractual Arrangements will be made without the approval of our independent non-executive Directors.

CONNECTED TRANSACTIONS

(b) No change without independent Shareholders’ approval

Save as described in paragraph (d) below, no change to the agreements governing the Modified Contractual Arrangements will be made without the independent Shareholders’ approval. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Modified Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Modified Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests in and/or the relevant asset of Chengdu Tianfu at the lowest price permitted under the PRC laws and regulations, (ii) the business structure under which the profit generated by our Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Chengdu Qicheng WFOE by our Consolidated Affiliated Entities under the Exclusive Services Agreement, and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entities.

(d) Renewal and reproduction

On the basis that the Modified Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Modified Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Modified Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

CONNECTED TRANSACTIONS

(e) Ongoing reporting and approvals

We will disclose details relating to the Modified Contractual Arrangements on an on-going basis as follows:

- The Modified Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Modified Contractual Arrangements annually and confirm in our Company’s annual reports and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Modified Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Modified Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the Modified Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Modified Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, our Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor full access to their relevant records for the purpose of our Company’s auditors’ review of the connected transactions.

CONNECTED TRANSACTIONS

SOLE SPONSOR’S AND DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in this section have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms; and (iii) are fair and reasonable and in the interests of our Shareholders as a whole.

Based on the relevant documents and information provided by our Group and reviewed by the Sole Sponsor, the necessary representations and confirmations provided by our Company and our Directors to the Sole Sponsor and the Sole Sponsor’s participation in the due diligence and discussions with the management of the our Company and the PRC Legal Advisor and its own PRC legal advisor, the Sole Sponsor is of the view that (i) the Modified Contractual Arrangements are fundamental to our Group’s legal structure and business operations; and (ii) the non-exempt continuing connected transactions described above, and for which the waivers have been sought, have been entered into in the ordinary course of business of our Group, on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL OF OUR COMPANY

The following is a description of the authorized and issued share capital of our Company as at the date of this document and shares issued or to be issued as fully paid or credited as fully paid immediately before and after the completion of the [REDACTED]:

	<u>Nominal value</u>
	(US\$)
Authorized share capital:	
<i>As of the Latest Practicable Date:</i>	
1,945,420,521 Shares of US\$0.00005 each	97,271.02605
27,000,000 Series A Preferred Shares of US\$0.00005 each	1,350
13,437,500 Series B1 Preferred Shares of US\$0.00005 each	671.875
3,375,742 Series B2 Preferred Shares of US\$0.00005 each	168.7871
7,933,017 Series D1 Preferred Shares of US\$0.00005 each	396.65085
2,833,220 Series D2 Preferred Shares of US\$0.00005 each	141.661
<i>Immediately after the completion of the [REDACTED]:</i>	
2,000,000,000 Shares of US\$0.00005 each	100,000
Shares in issue as at the date of this document (assuming the Preferred Shares are converted into Shares)^{Note:}	
112,539,479 Shares of US\$0.00005 each	5,626.97395
Shares to be issued pursuant to the [REDACTED]:	
[REDACTED] Shares of US\$0.00005 each	<u>[REDACTED]</u>
Shares in issue immediately following the [REDACTED]:	
[REDACTED] Shares of US\$0.00005 each	<u><u>[REDACTED]</u></u>

Note: The Preferred Shares will be converted into Shares on an one-to-one basis by way of re-designation to Shares on the [REDACTED].

Assumptions:

The above table assumes that the [REDACTED] has become unconditional and the Shares are issued pursuant to the [REDACTED]. It takes no account of any Shares (1) which may be allotted and issued pursuant to (i) the exercise of (a) the [REDACTED] and (b) options granted or which may be granted under the Share Option Schemes, (ii) the grant of the Awards under the [REDACTED] Share Award Scheme or (2) which may be allotted and issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

SHARE CAPITAL

RANKING

Our Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares. The [REDACTED] will carry the same rights as all Shares in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of our Memorandum of Association and our Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) subdivide its Shares into Shares of smaller amount; and (iv) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital by special resolution of Shareholders. For details, please see “Summary of the Constitution of the Company and Cayman Islands Companies Law and Taxation” in Appendix III to this document.

Pursuant to the Cayman Companies Law and the terms of our Memorandum of Association and our Articles of Association, all or any of the special rights attached to our Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares in that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares in that class. For details, please see “Summary of the Constitution of the Company and Cayman Islands Companies Law and Taxation” in Appendix III to this document.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to allot and issue Shares, particulars of which are set out in the section headed “Statutory and General Information — A. Further Information About Our Group — 3. Resolutions in writing of our Shareholders passed on [●], 2019” in Appendix IV to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to repurchase Shares, particulars of which are set forth in the section headed “Statutory and General Information — A. Further Information About Our Group — 3. Resolutions in writing of our Shareholders passed on [●], 2019” and “Statutory and General Information — A. Further Information About Our Group — 6. Repurchase of our own securities” in Appendix IV to this document.

SHARE CAPITAL

SHARE OPTION SCHEMES

Our Company has conditionally adopted the [REDACTED] Share Option Schemes and the [REDACTED] Share Option Scheme on March 12, 2019 and [●], 2019, respectively. A summary of the principal terms of each of the [REDACTED] Share Option Schemes and the [REDACTED] Share Option Scheme is set forth in the section headed “Statutory and General Information — D. Share Option Schemes” in Appendix IV to this document.

[REDACTED] SHARE AWARD SCHEME

Our Company has also conditionally adopted the [REDACTED] Share Award Scheme on [●], 2019. A summary of the principal terms of the [REDACTED] Share Award Scheme is set forth in the section headed “Statutory and General Information — E. [REDACTED] Share Award Scheme” in Appendix IV to this document.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme, the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Substantial shareholder	Number of Shares/underlying Shares	Nature of interest	Approximate percentage of interest in our Company
Ming Feng ⁽¹⁾	[REDACTED]	Beneficial Interest	[REDACTED]%
Mr. JG Zhang ^{(1), (2)}	[REDACTED]	Interest in Controlled Corporation and interest jointly held with other persons	[REDACTED]%
Ms. JM Zhang ⁽²⁾	[REDACTED]	Interest in Controlled Corporation and interest jointly held with other persons	[REDACTED]%
Mr. F Zhang ⁽²⁾	[REDACTED]	Interest in Controlled Corporation and interest jointly held with other persons	[REDACTED]%
Ms. Wang Fen ⁽³⁾	[REDACTED]	Interest of Spouse	
Ms. Wu Qi ⁽⁴⁾	[REDACTED]	Interest of Spouse	[REDACTED]%
Mr. Chen Bin ⁽⁵⁾	[REDACTED]	Interest of Spouse	[REDACTED]%
LC Fund V, L.P.	[REDACTED] ⁽⁶⁾	Beneficial Interest	[REDACTED]%
LC Fund V GP Limited ⁽⁷⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%
VMS Strategic Investment Fund, L.P. ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Beneficial Interest	[REDACTED]%
VMS Strategic Investment GP Limited ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%
VMS Investment Management Inc. ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%
VMS Financial Services Group Limited ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Substantial shareholder	Number of Shares/underlying Shares	Nature of interest	Approximate percentage of interest in our Company
VMS Holdings Limited ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%
Ms. Mak Siu Hang Viola ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%
Wise Horizon Holdings Limited ⁽⁸⁾	[REDACTED] ⁽⁶⁾	Interest in Controlled Corporation	[REDACTED]%

Notes:

- Ming Feng is wholly owned by Mr. JG Zhang and under the SFO, Mr. JG Zhang is deemed to be interested in the [REDACTED] Shares held by Ming Feng.
- Wu Fu Min Feng is wholly owned by Mr. F Zhang and under the SFO, Mr. F Zhang is deemed to be interested in the [REDACTED] Shares held by Wu Fu Min Feng. In addition, Mr. F Zhang was granted options under the Mid-senior Level Management [REDACTED] SOS which entitle him to subscribe for [REDACTED] Shares.
Lin Feng is wholly owned by Ms. JM Zhang and under the SFO, Ms. JM Zhang is deemed to be interested in the [REDACTED] Shares held by Lin Feng. In addition, Ms. JM Zhang was granted options under the Mid-senior Level Management [REDACTED] SOS which entitle her to subscribe for [REDACTED] Shares.
Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang have entered into an acting in concert deed dated January 18, 2019 according to which, among other things, they acknowledged and confirmed that they will act in concert with each other in respect of all major management matters, business decisions (including but not limited to financial and operational matters), and all matters being the subject matters of any shareholders' resolution of Ming Feng and any of the members of our Group.
As such, Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang together control [REDACTED] Shares/underlying Shares, representing approximately [REDACTED]% interest of the total issued share capital of our Company through Ming Feng, Lin Feng and Wu Fu Min Feng. As a result, each of Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang is deemed to be interested in such [REDACTED] Shares/underlying Shares, representing approximately [REDACTED]% interest in the total issued share capital of our Company.
- Ms. Wang Fen is the spouse of Mr. JG Zhang and under the SFO, Ms. Wang Fen is deemed to be interested in the [REDACTED] Shares/underlying Shares in which Mr. JG Zhang is interested.
- Ms. Wu Qi is the spouse of Mr. F Zhang and under the SFO, Ms. Wu Qi is deemed to be interested in the [REDACTED] Shares/underlying Shares in which Mr. F Zhang is interested.
- Mr. Chen Bin is the spouse of Ms. JM Zhang and under the SFO, Mr. Chen Bin is deemed to be interested in the [REDACTED] Shares/underlying Shares in which Ms. JM Zhang is interested.
- Assuming that all Preferred Shares will automatically be converted into an equal number of the Shares upon the [REDACTED] by way of re-designation as the Shares.
- As LC Fund V GP Limited is the general partner of both of LC Fund V, L.P. and LC Parallel Fund V, L.P., LC Fund V GP Limited is deemed to be interested in the [REDACTED] Shares and [REDACTED] Shares held by LC Fund V, L.P. and LC Parallel Fund V, L.P., respectively.
- VMS Strategic Investment Fund, L.P. holds [REDACTED] Shares and under the SFO, VMS Strategic Investment GP Limited, which is the general partner of VMS Strategic Investment Fund, L.P., is deemed to be interested in the [REDACTED] Shares held by VMS Strategic Investment Fund, L.P.. VMS Strategic Investment GP Limited is wholly owned by VMS Investment Management Inc.. VMS Investment Management Inc. is wholly owned by VMS Financial Services Group Limited. VMS Financial Services Group Limited is wholly owned by VMS Holdings Limited. VMS Holdings Limited is owned as to 59.8%, 32.2% and 8% by Ms. Mak Siu Hang Viola, Master Competent Limited (which in turn is wholly owned by Ms. Mak Siu Hang Viola) and VMS Management Partners Limited, respectively. As such, each of VMS Investment Management Inc., VMS Financial Services Group Limited, VMS Holdings Limited and Ms. Mak Siu Hang Viola is deemed to be interested in the [REDACTED] Shares by VMS Strategic Investment Fund, L.P. As Wise Horizon Holdings Limited contributed more than one-third of the capital to VMS Strategic Investment Fund, L.P., Wise Horizon Holdings Limited is also deemed to be interested in the [REDACTED] Shares held by VMS Strategic Investment Fund, L.P..

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

The Board currently consists of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. Our executive Directors, non-executive Directors and independent non-executive Directors will be subject to rotation and re-election at the annual general meetings of our Company in accordance with the Articles of Association.

The following table sets forth certain information of our Directors:

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Mr. Zhang Jianguo (張建國)	55	Executive Director, Chairman and Chief Executive Officer	October 2011	February 2010	Overall strategic planning and business direction, operation and management of our Group and overseeing our flexible staffing services	Nil
Mr. Zhang Feng (張峰)	45	Executive Director and Chief Operating Officer	October 2011	June 2011	Oversee the research and development of our information system (including Xiang Recruitment Platform) and the operation infrastructure of our professional recruitment services, and devise the overall product development strategy of our Group	Nil
Ms. Zhang Jianmei (張健梅)	39	Executive Director and Sales Vice-President	September 2018	March 2011	Oversee overall sales and business development of our Group	Nil
Mr. Chen Rui (陳瑞)	45	Non-executive Director	April 2012	April 2012	Provide professional opinion to the Board	Nil
Mr. Chow Siu Lui (鄒小磊)	58	Non-executive Director	July 2018	July 2018	Provide professional opinion to the Board	Nil
Ms. Chan Mei Bo Mabel (陳美寶)	47	Independent Non-executive Director	●	●	Provide independent opinion and judgment to the Board	Nil
Mr. Shen Hao (沈浩)	47	Independent Non-executive Director	●	●	Provide independent opinion and judgment to the Board	Nil

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Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Mr. Leung Ming Shu (梁銘樞)	43	Independent Non-executive Director	[●]	[●]	Provide independent opinion and judgment to the Board	Nil

DIRECTORS

Executive Directors

Mr. Zhang Jianguo (張建國), aged 55, is an executive Director and the Chairman and Chief Executive Officer of our Group. He was appointed as a Director in October 2011, and was re-designated as an executive Director and appointed as the Chairman of our Board in March 2019. Mr. JG Zhang has more than 20 years of experience in the HR management sector and he is responsible for the overall strategic planning and business direction, operation and management of our Group and overseeing our flexible staffing services. Prior to joining our Group, Mr. JG Zhang was the chief executive officer of ChinaHR.com (中華英才網), a provider of HR services based in the PRC, from July 2004 to January 2009, where he was responsible for overall management. From January 2003 to July 2004, Mr. JG Zhang was the general manager of China Stone Management Consulting Ltd. (北京華夏基石企業管理諮詢公司), a management consulting company, where he was responsible for overall day-to-day management. From June 2001 to December 2002, Mr. JG Zhang was the general manager of Shenzhen Yihua Times Management Consulting Ltd. (深圳市益華時代管理諮詢有限公司), where he was responsible for overall day-to-day management. From April 1990 to June 2000, Mr. JG Zhang held various positions at Huawei (華為), a provider of information and communications technology infrastructure and smart devices, and he served as the vice president before his departure, where he was responsible for overseeing HR matters.

Mr. JG Zhang is currently the vice president of Beijing Human Resources Consulting Association (北京市人才行業協會) and Shanghai Human Resources Consulting Association (上海人才服務行業協會) and the vice president of the council members of the professional committee of China Association of Trade in Services (中國服務貿易協會專家委員會副理事長). Mr. JG Zhang was awarded with 2019 Asia-Pacific Human Resources Development and Service Fair Most Influential Award (2019亞太人力資源開發與服務博覽會最具影響力獎) in 2019. Mr. JG Zhang was named as one of the Top Ten Persons of the Year of the PRC HR services industry in 2018 (2018中國人力資源服務業年度十大人物), in recognition of his achievement in the HR industry in China. In April 2007, he received the 2nd China HR Management the Top Ten Persons Award (第二屆中國人力資源管理大獎“十佳人物”). He received the 2015

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Guangdong Service Outsourcing Outstanding Achievement Person Award (2015年度廣東服務外包傑出貢獻人物) and the 2015-2016 China Service Outsourcing Innovative Person Certificate (2015-2016年度中國服務外包創新人物). Mr. JG Zhang was an author of numerous publications, namely Compensation System Design (《薪酬體系設計》), Performance System Design (《績效體系設計》), Professional Process Design (《職業化進程設計》), Flexible Employment (《靈活用工——人才為我所有到為我所用》), a white paper on the development of flexible staffing in China with Sino Foreign Management (中外管理) and Manager’s Thought — Winning in Strategic Human Resource Management (《經營者思維——贏在戰略人力資源管理》).

Mr. JG Zhang received a master degree in engineering from Lanzhou Jiaotong University (蘭州交通大學) (formerly known as Lanzhou Railway Institute (蘭州鐵道學院)) in January 1987. He also obtained a master degree in business administration from Beijing University in July 2015.

Mr. JG Zhang currently holds the following positions in the following major subsidiaries of our Group:

- the chairman and a director of Chengdu Tianfu;
- the chairman, a director and the general manager of Chengdu Qicheng WFOE;
- the executive director of Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司);
- the executive director of Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司);
- the executive director of Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司);
- the executive director of Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司);
- the executive director of Shanghai Renrui;
- the chairman and a director of Xinan Renrui; and
- the executive director of Liaoning Renrui.

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Mr. JG Zhang was a director of the following companies which were incorporated in the PRC at the time of their dissolution:

Name of company	Principal business activity	Date of dissolution	Means of dissolution	Reason for dissolution
	before dissolution			
Jiaxing Tixue Dilu Equestrian Co., Ltd. (嘉興市踢雪的廬馬術有限公司).....	Equestrian training services	September 12, 2014	Voluntary dissolution	Ceased to carry out business
Jiaxing Xushui Leisure Farm Co., Ltd. (嘉興市旭水休閒農莊有限公司).....	Sightseeing services	July 18, 2017	Voluntary dissolution	Ceased to carry out business
Jiaxing Jiaying Hui Leisure Farm Co., Ltd. (嘉興市嘉英會休閒農莊有限公司).....	Sightseeing services	July 17, 2013	Voluntary dissolution	Ceased to carry out business
Shanghai Xinwang Ai Investment Management Consulting Co., Ltd. (上海信望愛投資管理諮詢有限公司).....	Investment management consultation	August 3, 2011	Voluntary dissolution	Ceased to carry out business

Mr. JG Zhang has confirmed that there was no wrongful act on his part leading to the dissolution of such companies, and he is not aware of any actual or potential claim which had been or will be made against him as a result of the dissolution. Mr. JG Zhang confirmed that the above companies had been inactive and were solvent at the time of their dissolution.

Mr. Zhang Feng (張峰) (former names as confirmed by Mr. F Zhang: Zhang Haifeng (張海峰) and Zhang Feng (張鋒)), aged 45, is an executive Director and the Chief Operating Officer of our Group. He was appointed as a Director in October 2011, and was re-designated as an executive Director and appointed as the Chief Operating Officer of our Group in March 2019. He is responsible for overseeing the research and development of our information system (including Xiang Recruitment Platform) and the operation infrastructure of our professional recruitment services, and devise the overall product development strategy of our Group. Mr. F Zhang has more than 18 years of experience in the HR management sector. Prior to joining our Group, Mr. F Zhang worked as a regional general manager at ChinaHR.com (中華英才網), from August 2004 to June 2011, where he was responsible for overseeing sales, operation and management. From July 2000 to August 2004, he held various positions at Datang Telecom Technology Co., Ltd. (大唐電信科技股份有限公司) (a company listed on The

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Shanghai Stock Exchange, with stock code: 600198), which is engaged in the development of telecommunication standard and manufacture of telecommunication equipment, and he served as the HR manager before his departure, where he was responsible for HR management.

Mr. F Zhang received a master degree in business administration from Xi'an Shiyou University (西安石油學院) in July 2000. He obtained vocational qualification of an enterprise HR management officer (企業人力資源管理人員) from Vocational Skills Identification (Guidance) Center (職業技能鑒定(指導)中心) in January 2004 and the professional qualification of a talent agent (人才中介) from the Shanghai Vocational Testing Authority (上海市職業能力考試院) in April 2013.

Mr. F Zhang currently holds the following positions in the following major subsidiaries of our Group:

- a director and the general manager of Chengdu Tianfu;
- a director of Chengdu Qicheng WFOE;
- the general manager of Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司);
- a director and the general manager of Xinan Renrui;
- the general manager of Liaoning Renrui;
- the general manager of Shanghai Renrui;
- the general manager of Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司);
- the general manager of Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司); and
- the general manager of Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司).

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Ms. Zhang Jianmei (張健梅), aged 39, is an executive Director and the Sales Vice-President of our Group. She was appointed as a Director in September 2018, and was re-designated as an executive Director in March 2019. She is responsible for overseeing overall sales and business development of our Group. Ms. JM Zhang has more than 16 years of experience in the HR management sector. Prior to joining our Group, Ms. JM Zhang worked as a vice general manager of the Western region of China and a general manager of the Chengdu subsidiary of ChinaHR.com (中華英才網), from July 2004 to March 2011, where she was responsible for the operation and management of its business in the Western region of China. From August 2002 to July 2004, she worked as a vice general manager of the Chengdu subsidiary of Times Bright China (時代光華), a company in the education and training industry, where she was responsible for the operation and management of its Chengdu subsidiary.

In September 2013, Ms. JM Zhang completed a part-time practical business management president course (實戰型高級工商管理總裁研究生課程進修班) at Southwestern University of Finance and Economics (西南財經大學). Ms. JM Zhang is currently attending a part-time Strategic Human Officer (SHO) advanced management course (戰略人力資源官(SHO)高級管理課程班) at Renmin University of China (中國人民大學).

Ms. JM Zhang currently holds the following positions in the following major subsidiaries of our Group:

- a director of Chengdu Tianfu;
- a director of Chengdu Qicheng WFOE;
- the supervisor of Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司);
- a director of Xinan Renrui;
- the supervisor of Liaoning Renrui;
- the supervisor of Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司);
- the supervisor of Shanghai Renrui;
- the supervisor of Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司); and
- the supervisor of Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司).

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Non-executive Directors

Mr. Chen Rui (陳瑞), aged 45, has been appointed as our non-executive Director. He was appointed as a Director in April 2012, and was re-designated as a non-executive Director in March 2019. As confirmed by Mr. Chen, he is a Director nominated by LC Fund V and LC Parallel Fund V.

Mr. Chen has been a supervisor of Beijing Urban Construction Design & Development Group Co., Limited (北京城建設計發展集團股份有限公司) (a joint stock company listed on the Main Board of the Stock Exchange, with stock code: 1599) since October 2013. From February 2005 up to present, he has held various positions at Legend Capital Management Co., Ltd. (君聯資本管理股份有限公司), a venture capital company, and he currently serves as the managing director, where he is primarily responsible for overseeing investments. Mr. Chen served as an engineer at Shenzhen Lingke Electronic Communication Appliances Co., Ltd (深圳市靈科電訊器材有限公司), which is primarily engaged in development and production of electronic communication appliances, from February 1998 to May 1999. From June 1999 to November 2002, he worked as an engineer, the manager and the vice general manager of the engineering technical department of Shenzhen Linker Industrial Co., Ltd. (深圳市菱科實業有限公司), which is primarily engaged in research, development and production of numbering machines.

Mr. Chen obtained a bachelor of science in electronics and information system from Shanxi University (山西大學) in July 1997. He obtained a MBA degree from Fordham University of America in February 2005.

Mr. Chow Siu Lui (鄒小磊), aged 58, has been appointed as our non-executive Director. He was appointed as a Director in July 2018, and was re-designated as a non-executive Director in March 2019. Mr. Chow is a Director nominated by VMS Strategic Investment Fund, L.P..

Mr. Chow has been a partner of VMS Investment Group (HK) Ltd. since January 2016.

Mr. Chow joined KPMG in July 1983, and was a partner in KPMG from July 1995 to December 2011. Mr. Chow was a council member of the Hong Kong Institute of Chartered Secretaries from 2010 to 2016, the chairman of its professional development committee from 2014 to 2015, and the chairman of its audit committee in 2016. He was the chairman of the Mainland Development Strategies Advisory Panel of the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) from 2016 to 2017.

Mr. Chow has been serving the following positions:

- the independent non-executive director of Fullshare Holdings Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 607) since December 2013;

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- the independent non-executive director of Universal Medical Financial & Technical Advisory Services Company Limited (now renamed as Genertec Universal Medical Group Company Limited) (a company listed on the Main Board of the Stock Exchange, with stock Code: 2666) since June 2015;
- the independent non-executive director of Shanghai Dazhong Public Utilities (Group) Co., Ltd (a company listed on the Main Board of the Stock Exchange, with stock code: 1635) since April 2016;
- the independent non-executive director of Futong Technology Development Holdings Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 465) since December 2016;
- the independent non-executive director of China Everbright Greentech Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 1257) since May 2017; and
- the independent non-executive director of China Tobacco International (HK) Company Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 6055) since December 2018.

Notwithstanding Mr. Chow’s engagement as an independent non-executive director of six companies listed on the Stock Exchange above, Mr. Chow confirmed that he would be able to devote sufficient time to act as our non-executive Director based on the following reasons:

- Mr. Chow’s directorship with our Company is part of his responsibilities as a partner of VMS Investment Group (HK) Ltd. to oversee VMS Strategic Investment Fund, L.P.’s investee companies. With his background and experience, Mr. Chow is fully aware of the responsibilities and time commitment required to discharge his obligations as our non-executive Director. Since Mr. Chow’s appointment as one of our Directors following the completion of VMS Strategic Investment Fund, L.P.’s investment in our Company in July 2018, he has attended all board meetings of our Company and remained responsive and able to discharge his duties as a non-executive Director;
- Mr. Chow’s role in our Company is to provide professional opinion to the Board, and he has not been and will not be involved in the daily management of our Group’s business. His engagement as a non-executive Director therefore will not require his full-time participation;
- none of Mr. Chow’s current commitment as an independent non-executive director would require his full-time involvement and he does not participate in the day-to-day operations of such listed companies;
- he has maintained a high attendance rate for the board meetings, committee meetings and shareholders’ meetings of such listed companies since the respective appointment dates; and

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- none of the above listed companies that he has directorship with has questioned or expressed concern about his devotion of time to such companies.

Based on the foregoing, our Directors do not have reasons to believe that the various positions as independent non-executive directors currently held by Mr. Chow will result in Mr. Chow not having sufficient time to discharge his duties as our non-executive Director. The Sole Sponsor concurs with the view of our Directors.

Mr. Chow had also previously served the following positions:

- the independent non-executive director of NWS Holdings Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 659) from March 2012 to June 2012;
- the independent non-executive director of Kong Shum Union Property Management (Holding) Limited (now renamed as Shi Shi Services Limited) (a company listed on GEM the Stock Exchange, with stock Code: 8181) from February 2015 to October 2015; and
- the independent non-executive director of Sinco Pharmaceuticals Holdings Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 6833) from February 2016 to November 2018.

In November 1983, Mr. Chow obtained the professional diploma in accountancy from the Hong Kong Polytechnic University. Mr. Chow became qualified as a member of the Hong Kong Society of Accountants (now renamed as the Hong Kong Institute of Certified Public Accountants) in October 1986 and a chartered certified accountant with the Chartered Association of Certified Accountants in July 1991. Mr. Chow was admitted as a fellow member of the Chartered Association of Certified Accountants in September 1991 and a fellow member of the Hong Kong Society of Accountants in December 1993.

Mr. Chow was a director of the following company which was incorporated in Hong Kong at the time of its dissolution:

Name of company	Principal business activity before dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Nanjing Club Investment Limited (南京會所投資有限公司).....	No operation	May 11, 2018	Dissolution by striking off	Ceased to carry out any business

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Mr. Chow has confirmed that there was no wrongful act on his part leading to the dissolution of Nanjing Club Investment Limited, and he is not aware of any actual or potential claim which had been or will be made against him as a result of the dissolution. Mr. Chow confirmed that the above company had been inactive and was solvent at the time of its dissolution.

Independent non-executive Directors

Ms. Chan Mei Bo Mabel (陳美寶), aged 47, is our independent non-executive Director and joined our Group in [●]. She established Mabel Chan & Co. (陳美寶會計師事務所) (an accounting firm, formerly known as Mabel M.B. Chan Certified Public Accountant) in February 1999 and became the deputy managing partner of Grant Thornton Limited following their merger in January 2016. Ms. Chan has been serving as (1) the independent non-executive director of Kingmaker Footwear Holdings Ltd. (a company listed on the Stock Exchange, with stock code: 01170) since August 2011, and (2) the independent non-executive director of Bank of Zhengzhou Co., Ltd. (a company listed on the Stock Exchange, with stock code: 6196) since June 2015.

Ms. Chan had previously served the following positions:

- the independent non-executive director of Code Agriculture (Holdings) Limited (formerly known as China Chief Cable TV Group Limited, a company listed on GEM of the Stock Exchange, with stock code: 8153) from October 2009 to April 2012;
- the independent non-executive director of Hong Kong Education (Int'l) Investments Ltd. (formerly known as Modern Education Group Limited, a company listed on the Stock Exchange, with stock code: 1082) from July 2011 to September 2012;
- the independent non-executive director of China Weaving Materials Holdings Limited (a company listed on the Stock Exchange, with stock code: 3778) from December 2011 to December 2014; and
- the independent non-executive director of South China Land Limited (a company listed on GEM of the Stock Exchange, with stock code: 8155) from May 2013 to March 2017.

Ms. Chan served as (1) the president of the Society of Chinese Accountants and Auditors (香港華人會計師公會) in 2010, (2) a member of the Council of Hong Kong Baptist University from January 2013 to December 2018, (3) a member of the Appeal Panel (Housing) of Hong Kong (香港上訴委員會(房屋)) from April 2014 to March 2018, (4) a member of the Council of Hong Kong Institute of Certified Public Accountants (香港會計師公會) from 2008 to 2018 and the president of the aforesaid Institute in 2017, (5) a member of Barristers Disciplinary Tribunal Panel of Hong Kong (香港大律師紀律審裁團) since May 2010, (6) a member of the Export Credit Insurance Corporation Advisory Board of HKSAR (香港出口信用保險局諮詢委員會) since July 2017, (7) a member of the Air Transport Licensing Authority of HKSAR (香港空運牌照局) since August 2017, (8) a member of the Securities and Futures Appeals

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Tribunal of HKSAR (香港證券及期貨事務上訴審裁處) since April 2017, (9) a member of the Small and Medium Enterprises Committee of HKSAR (香港中小型企業委員會) since January 2017, (10) a member of the Trade and Industry Advisory Board of HKSAR (香港工業貿易諮詢委員會) since September 2017.

Ms. Chan obtained a master’s degree in business administration from Hong Kong University of Science and Technology (Hong Kong) in November 2000. She has been (1) a member of the Chartered Association of Certified Accountants (英國特許公認會計師公會) since November 1996, (2) a member of Hong Kong Institute of Certified Public Accountants (香港會計師公會) since January 1997, (3) a member of the Society of Chinese Accountants & Auditors (香港華人會計師公會) since December 2002, (4) a member of the Institute of Chartered Accountants in England and Wales (英格蘭和威爾斯特許會計師公會) since February 2008 and (5) a member of CPA Australia (澳洲會計師公會) since April 2017. She is also currently a certified public accountant (practising) accredited by the Hong Kong Society of Accountants (香港會計師公會).

Ms. Chan was a director of the following company which was incorporated in Hong Kong at the time of its dissolution:

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution
	activity before dissolution			
Hong Kong Professionals Advancement Association Limited	Facilitation of exchange between professionals	February 9, 2018	Dissolution by striking off	Ceased to carry out any business

Ms. Chan has confirmed that there was no wrongful act on her part leading to the dissolution of Hong Kong Professionals Advancement Association Limited, and she is not aware of any actual or potential claim which had been or will be made against her as a result of the dissolution. Ms. Chan confirmed that the above company had been inactive and was solvent at the time of its dissolution.

Mr. Shen Hao (沈浩), aged 47, is our independent non-executive Director and joined our Group in [●]. Mr. Shen has been an independent director of NCH Hua Yang Ltd.* (華陽 – 恩賽有限公司), which is a sino-USA joint venture providing industrial and commercial maintenance products and services, since November 2013, where he has been responsible for providing independent opinion and judgment to the directors. He was a managing director of H&Q Asia Pacific from November 2010 to July 2013, where he was responsible for investment management in China. He was a vice general manager of China International Capital Corporation Limited (a company listed on the Main Board of the Stock Exchange, with Stock code: 3908) from April 2007 to February 2008, where he was responsible for general management. He was an assistant to the chief executive officer of GF Securities Co., Ltd from September 2001 to August 2006. He was the head of executive education client services in

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Harvard University from April 1997 to August 2001, where he was responsible for the design and deployment of technology support services and training, and during around the same time from June 1997 to August 2001, he was also the lead advisor of the Asian programme development in the same university.

In May 1995, Mr. Shen obtained his bachelor degree of arts in Gustavus Adolphus College in the United States. In June 1997, Mr. Shen obtained his master degree of education from Harvard University.

Mr. Shen was a director of the following companies which were incorporated in the PRC at the time of their dissolution:

Name of company	Principal business activity before dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Shanghai Jingshen Investment Management Co., Ltd (上海菁深投資管理有限公司)	Investment management consultation	July 9, 2018	Voluntary dissolution	Ceased to carry out business
Changsha Shenhao Electronic Technology Co., Ltd (長沙申鎬電子科技有限公司)	Development and sales of electronic products	June 30, 2015	Voluntary dissolution	Ceased to carry out business
Shanghai Xinwang Ai Investment Management Consulting Co., Ltd. (上海信望愛投資管理諮詢有限公司)	Investment management consultation	August 3, 2011	Voluntary dissolution	Ceased to carry out business

Mr. Shen has confirmed that there was no wrongful act on his part leading to the dissolution of such companies, and he is not aware of any actual or potential claim which had been or will be made against him as a result of the dissolution. Mr. Shen confirmed that the above companies had been inactive and were solvent at the time of their dissolution.

Mr. Leung Ming Shu (梁銘樞), aged 43, is our independent non-executive Director and joined our Group in [●]. Mr. Leung founded internet private equity fund Harmony Capital as the founding partner on January 2018. Mr. Leung has been the company secretary of China ITS (Holdings) Co., Ltd. (中國智能交通系統(控股)有限公司) (a company listed on the Main Board of the Stock Exchange, with stock code: 1900) since January 2008 and the chief financial officer of this company from January 2008 to January 2018. He has also been an independent non-executive director of Comtec Solar Systems Group Limited (卡姆丹克太陽能系統集團有限公司) (a company listed on the Main Board of the Stock Exchange, with stock code: 712) since

DIRECTORS AND SENIOR MANAGEMENT

June 2008, an independent non-executive director of Sun.King Power Electronics Group Limited (a company listed on the Main Board of the Stock Exchange, with stock code: 580) since March 2017, and an independent non-executive director of Cabbeen Fashion Limited (卡賓服飾有限公司) (a company listed on the Main Board of the Stock Exchange, with stock code: 2030) since February 2013.

Mr. Leung has over 20 years of experience in the areas of corporate finance and accounting. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong as an auditor in 1998, where he was responsible for performing statutory audit work on listed companies in Hong Kong. He then worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000, where he was responsible for conducting financial advisory services for government bodies and due diligence exercises for corporate clients. From July 2001 to February 2003, Mr. Leung also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he was responsible for advising companies on issues of strategy, organization and operations. Mr. Leung then spent approximately three years from February 2003 to January 2006 at CDC Corporation, a NASDAQ listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc. (now renamed as Sino Splendid Holdings Limited), a subsidiary of CDC Corporation and a company listed on the Stock Exchange, with stock code: 8006, where he was responsible for overseeing the entire finance operations, mergers & acquisitions, investors relationship, and other capital market activities of that company. From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd., a related party of 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd., a company listed on The Shanghai Stock Exchange, with stock code: 600198) which is engaged in the development of telecommunication standard and manufacture of telecommunication equipment, where he was responsible for driving a proposed initial public offering process of that company. From November 2006 to January 2008, he served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd (北京靈圖星訊科技有限公司), a subsidiary of Beijing Lingtu Software Co., Ltd (北京靈圖軟件技術有限公司), a PRC digital mapping and navigation software company, where he was responsible for conducting equity fund raising, and overseeing the finance operations of that company.

Mr. Leung obtained his bachelor degree in arts with first class honours in accountancy from the City University of Hong Kong in November 1998 and a master degree in accountancy from the Chinese University of Hong Kong in November 2001. He was admitted as a fellow member of the Association of Chartered Certified Accountants in February 2007 and a fellow member of the Hong Kong Institute of Certified Public Accountants in June 2010.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung was a director of the following companies which were incorporated in Hong Kong at the time of their dissolution:

Name of company	Principal business activity before dissolution	Date of dissolution	Means of dissolution	Reason for dissolution
Ambient Consulting Group Limited	Investment holding	November 12, 2004	Dissolution by deregistration	Ceased to carry out business
Couponxpress Company Limited . . .	Market promotion	March 13, 2009	Dissolution by striking off	Ceased to carry out business

Mr. Leung has confirmed that there was no wrongful act on his part leading to the dissolution of such companies, and he is not aware of any actual or potential claim which had been or will be made against him as a result of the dissolution. Mr. Leung confirmed that the above companies had been inactive and were solvent at the time of their dissolution.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below shows certain information in respect of the senior management of our Company.

Name	Age	Position	Date of appointment as senior management	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Mr. Zhang Jianguo (張建國)	55	Executive Director, Chairman and Chief Executive Officer	October 2011	February 2010	Overall strategic planning and business direction, operation and management of our Group and overseeing our flexible staffing services	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as senior management	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Mr. Zhang Feng (張峰)	45	Executive Director and Chief Operating Officer	October 2011	June 2011	Oversee the research and development of our information system (including Xiang Recruitment Platform) and the operation infrastructure of our professional recruitment services, and devise the overall product development strategy of our Group	Nil
Ms. Zhang Jianmei (張健梅)	39	Executive Director and Sales Vice-President	September 2018	March 2011	Oversee overall sales and business development of our Group	Nil
Mr. Li Wenjia (李文佳)	35	Chief Financial Officer	January 2015	January 2015	Oversee the finance management and regulatory compliance of our Group, and manage investor relationships of our Group	Nil

Mr. Zhang Jianguo (張建國), aged 55, is an executive Director and the Chairman and Chief Executive Officer of our Group. Please see his biography in the part headed “ — Directors - Executive Directors” in this section.

Mr. Zhang Feng (張峰), aged 45, is an executive Director and the Chief Operating Officer of our Group. Please see his biography in the part headed “ — Directors - Executive Directors” in this section.

Ms. Zhang Jianmei (張健梅), aged 39, is an executive Director and the Sales Vice-President of our Group. Please see her biography in the part headed “ — Directors - Executive Directors” in this section.

Mr. Li Wenjia (李文佳), aged 35, is the Chief Financial Officer of our Group. He joined our Group in January 2015. He is responsible for overseeing the finance management and regulatory compliance of our Group, and managing investor relationships of our Group. Mr. Li has more than seven years of experience in the auditing and finance sector. Immediately prior to joining our Group, Mr. Li worked at PricewaterhouseCoopers Zhong Tian (普華永道中天會計師事務所), from January 2011 to December 2014, where he was responsible for handling the auditing projects for renowned Chinese state-owned enterprises, China A-Share companies

DIRECTORS AND SENIOR MANAGEMENT

and multinational corporations. He worked at Shanghai Mazha’er Certified Public Accountants’ Firm (上海瑪澤會計師事務所), from February 2008 to January 2011, where he was responsible for handling the auditing projects for French corporations investing in China. He worked at Shanghai Certified Public Accountants (上海上會會計師事務所), from September 2007 to January 2008, where he was responsible for handling the auditing projects for China A-Share companies.

Mr. Li received a bachelor degree, majoring in econometrics, and business management from Shanghai University of Finance and Economics (上海財經大學) in July 2007. He became a PRC certified public accountant in September 2010, a PRC registered tax agent in August 2011 and a PRC certified public valuer in November 2011.

Interests of our Directors and Senior Management

Since February 2018, Mr. Chen Rui has been a director of Shanghai KNX Human Resources Technology Co., Ltd. (上海肯耐珂薩人力資源科技股份有限公司)(“**KNX**”), a non-listed company incorporated in the PRC with a registered capital of approximately RMB21.2 million as of the Latest Practicable Date. As confirmed by Mr. Chen, he was nominated by Beijing Legend Capital Huicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業(有限合夥)), a venture capital fund launched by Legend Capital, to be its board representative in KNX following its investment in KNX. The business focus of KNX is the provision of recruitment and training services via its cloud computing/SaaS platform. As further confirmed by Mr. Chen, Beijing Legend Capital Huicheng Equity Investment L.P. (北京君聯慧誠股權投資合夥企業(有限合夥)) is merely a financial investor with a minority interest in KNX, and his role in KNX is non-executive in nature. In light of the above and given that our Group’s business focus is the provision of flexible staffing services, our Directors consider that our businesses and those of the businesses carried out by KNX are different in terms of business focus, and hence, do not believe that any direct or indirect competition is or is likely to be material in nature.

Save as disclosed above, none of our Directors have any interests in any business, other than our Group’s business, which compete or is likely to compete, either directly or indirectly, with our Group’s business.

Save as disclosed in this section, none of our Directors holds any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this document. See the section headed “Statutory and General Information — C. Further Information About our Directors and Substantial Shareholders” in Appendix IV to this document for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO).

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in this section and the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders” in Appendix IV to this document, to the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as of the Latest Practicable Date, there were no other matters in respect of each of our Directors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there were no other material matters relating to our Directors that need to be brought to the attention of our Shareholders.

JOINT COMPANY SECRETARIES

Mr. Li Wenjia (李文佳), is our Chief Financial Officer and was appointed as one of our joint company secretaries in March 2019 with effect from the [REDACTED]. Please see his biography in the part headed “ — Senior Management” in this section.

Ms. Siu Pui Wah (蕭佩華), was appointed as one of our joint company secretaries in March 2019 with effect from the [REDACTED]. She is a director and head of accounting and corporate services of Trident Corporate Services (Asia) Limited, a global professional services provider. She has been working in Trident Corporate Services (Asia) Limited for over 18 years and possesses experiences in providing accounting, taxation and corporate secretarial services to listed companies as well as multinational, private and offshore companies. Ms. Siu is a certified public accountant and is a member of the Hong Kong Institute of Certified Public Accountants since 2003.

BOARD COMMITTEES

We have established the following committees in our Board: the Audit Committee, the Remuneration Committee and the Nomination Committee. These committees operate in accordance with the terms of reference established by our Board.

Audit Committee

Our Company established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee has three members, namely Mr. Leung Ming Shu, Mr. Chow Siu Lui and Ms. Chan Mei Bo Mabel. Mr. Leung Ming Shu has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely Ms. Chan Mei Bo Mabel, Mr. JG Zhang and Mr. Shen Hao. Ms. Chan Mei Bo Mabel has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, but are not limited to, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Nomination Committee

Our Company established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee has three members, namely, Mr. JG Zhang, Ms. Chan Mei Bo Mabel and Mr. Shen Hao. Mr. JG Zhang has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

BOARD DIVERSITY

We [have adopted] a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, qualification, skills, experience, knowledge and length of service. After the [REDACTED], the Nomination Committee will review the board diversity policy on an annual basis to ensure its continued effectiveness and we will disclose in our corporate governance report details of the implementation of the board diversity policy on an annual basis.

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CORPORATE GOVERNANCE

Pursuant to Code Provision A.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from, the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer, and Mr. JG Zhang currently performs these two roles. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, our Board believes that this structure will not impair the balance of power and authority between our Board and the management of our Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three independent non-executive Directors out of eight Directors, and we believe there is sufficient check and balance in our Board; (ii) Mr. JG Zhang and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions of our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of our Board which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial and operational policies of our Group are made collectively after thorough discussion at both our Board and senior management levels. Finally, as Mr. JG Zhang is our principal founder, our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

For further information relating to our Company's corporate governance measures, please see the section headed “Relationship with our Controlling Shareholders — Corporate Governance Measures” in this document.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration from our Group in the form of salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to the Directors for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 were approximately RMB1.54 million, RMB1.90 million, RMB2.34 million and RMB1.25 million, respectively. None of the Directors had waived any remuneration during the same period.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Group’s five highest paid individuals, including Directors, for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 were approximately RMB3.39 million, RMB4.10 million, RMB5.46 million and RMB3.28 million, respectively.

Save as disclosed above, no other payments have been made or are payable in respect of the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 by any of member of our Group to any of the Directors or senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors or the five highest paid individuals for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of the Directors for the year ending December 31, 2019 to be approximately RMB1.70 million.

SHARE OPTIONS SCHEMES AND [REDACTED] SHARE AWARD SCHEME

Our Company has conditionally adopted the [REDACTED] Share Option Schemes, the [REDACTED] Share Option Scheme and the [REDACTED] Share Award Scheme as share incentive schemes. For details of these share incentive schemes, please refer to the sections headed “Statutory and General Information — D. Share Option Schemes” and “Statutory and General Information — E. [REDACTED] Share Award Scheme” in Appendix IV to this document.

COMPLIANCE ADVISOR

We have appointed Founder Securities (Hong Kong) Capital Company Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult with and seek advice from our compliance adviser in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate, or other information in this document; and

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- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the securities of our Company, the possible development of a false market in the securities of our Company or any other matters.

The term of the appointment shall commence on the [REDACTED] and end on the date on which our Company distributes its annual report in respect of our financial results for the first full financial year commencing after the [REDACTED].

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You should read the following discussion and analysis with our audited consolidated financial statements, including the notes thereto, included in the Accountant’s Report in Appendix I to this document. Our consolidated financial statements has been prepared in accordance with HKFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of 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, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed “Risk Factors” and “Business”.

For the purpose of this section, unless the context otherwise requires, references to 2016, 2017 and 2018 refer to our financial years ended December 31 of such years, and references to the first half of 2018 or the first half of 2019 refer to the six month periods ended June 30 of such years, respectively. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We operate the largest scale of flexible staffing services in China in terms of the number of flexible staffing employees hired by the end of 2018 and revenue generated from flexible staffing services in 2018, according to CIC, deploying approximately 19,400 flexible staffing employees to our clients. Our extensive service network in China has established us as one of the leading players in the industry and enabled us to benefit from the significant growth of China’s HR services industry.

We launched our Company in 2010 in Chengdu, a strategic location with an abundance of quality labor resources undergoing rapid growth, and a need to match this labor pool with expanding companies. We subsequently established offices in Beijing, Shanghai, Guangzhou and Shenzhen, as part of our aim to expand and establish our presence in first-tier cities in China, which have dense population and robust economic growth. As the leading flexible staffing services provider in China with the only self-developed O2O recruitment platform in flexible staffing market as of June 30, 2019, we are able to convert online traffic into an offline recruitment process, and offer result-oriented recruitment services with a high conversion rate with short lead time. Supported by this industry-leading approach and an advanced integrated HR ecosystem, we can satisfy the demands of our key business operations. Our platform attracted more than 30,000, 100,000, 135,000 and 141,000 average monthly active users and more than 4,300, 17,400, 20,000 and 17,800 average daily visits in 2016, 2017, 2018 and the six months ended June 30, 2019, respectively.

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During the Track Record Period, we generated all of our revenue by providing our HR solutions, typically in the forms of (i) flexible staffing services by charging a premium along with all labor costs of our contract employees; (ii) professional recruitment services by charging a fixed fee based on the number of candidates successfully placed, or in the case of senior or executive level headhunting, by the seniority of the position and a percentage of the annual salary of the successfully placed job candidate, as well as paid membership-based candidate interview arrangement and job advertising through our Xiang Recruitment Platform; and (iii) other HR services comprising BPO services, labor dispatch services, tailored corporate training and other miscellaneous services charged on a case-by-case basis. For further details on the different types of services, please refer to the section headed “Business — Our Business and Operations” in this document.

Set out below are our selective financial information during our Track Record Period:

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	376,288	776,247	1,615,891	659,026	1,077,361
Gross profit	41,067	87,748	154,956	58,015	115,926
Operating (loss)/profit . .	(42,409)	13,357	57,527	21,620	57,844
(Loss)/profit for the year/period attributable to equity holders of the Company	<u>(35,420)</u>	<u>(44,005)</u>	<u>(136,935)</u>	<u>21,147</u>	<u>(229,202)</u>
NON-HKFRS MEASURES					
Adjusted net (loss)/profit (unaudited)	<u>(33,498)</u>	<u>9,870</u>	<u>67,690</u>	<u>21,676</u>	<u>58,476</u>

Please refer to “— Significant Accounting Policies” and “Non-HKFRS Measures” in this section for further details.

BASIS OF PRESENTATION

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”), issued by HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“**FVPL**”) and hybrid financial instruments, which are carried at fair value. In particular, the Group applied HKFRS 9 “Financial Instruments”, HKFRS 15 “Revenue from Contracts with Customers” and HKFRS 16 “Leases” throughout the Track Record Period. These policies have been consistently applied throughout the Track Record Period.

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The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 of “Appendix I — Accountant’s Report”. A number of new standards and amendments to existing standards have been issued but are not yet effective for the Track Record Period, and have not been early adopted by the Group’s management, which are set out in the Note 2.1(i) of “Appendix I — Accountant’s Report”. The Group is in the process of assessing potential impact of the above other new standards and amendments to standards that are relevant to the Group upon initial application. According to the preliminary assessment made by our Directors, the management does not anticipate any significant impact on the Group’s balance sheets and results of operations upon adopting the above new standards and amendments to existing standards. We plan to adopt these new standards and amendments to existing standards when they become effective.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION

Our Ability to Maintain Major Clients

We derived a considerable portion of our revenue from our five largest clients which comprised unicorn companies and new economy companies in the PRC. For the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, revenue from our five largest clients accounted for approximately 45.2%, 44.2%, 50.8% and 57.1% of our total revenue. We have maintained a renewal rate of 100% for clients with an aggregated transaction amount of over RMB1.0 million during the Track Record Period. There is no guarantee that we will continue to obtain new contracts or maintain the level of work from these unicorn companies and new economy companies in the PRC in the future. Any failure to obtain new contracts or maintain the level of work from these clients would materially and adversely affect our financial performance. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Our Industry — Any significant decrease in revenue generated from our five largest clients would materially and adversely affect our business, results of operations and financial condition” in this document for further details.

We do not have long-term cooperation agreements or exclusive arrangements with our clients and they may choose to move some or all of their business to our competitors on short notice. Any increase in competition from other HR services providers, significant reduction in the level of spending on HR services by unicorn companies and new economy companies in the PRC, or deterioration in the industry in which these largest clients operate may significantly reduce the volume or price of our services, and may lead to a material adverse impact on our business, financial condition and results of operation.

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Our Ability to Rapidly Source Adequate Candidates who Meet the Requirements of our Clients

Our business depends on our ability to rapidly and continually source large numbers of suitable candidates to support the rapid expansion of our clients. Particularly, we must continually upgrade and keep abreast of our integrated HR ecosystem and talent pool composition to pace up with changing client needs and emerging technologies. Our ability to continue to drive the organic growth of our talent base is primarily driven by factors including our ability to connect them to career opportunities, the quality of our services, the range and effectiveness of our online tools and functions, and our brand reputation.

Competition for individuals with certain skills and experience is intense, and qualified candidates may not be available to us in sufficient numbers and on terms of employment acceptable to us. Going forward, our ability to increase revenues by recruiting enough candidates who possess the skills and experience necessary to meet the requirements of our clients in a timely fashion will be largely affected by various factors including our clients' willingness to pay, our ability to continually update and keep abreast of our integrated HR ecosystem and talent pool composition, and our ability to continue diversifying our service offerings and monetization channels.

Our Ability to Improve our User Experience or Respond to Changes in User or Client Preferences

A key factor in attracting and retaining clients, from whom we generate our revenue, is our ability to grow our talent pool. The stickiness and engagement of our individual users, in turn, depends on our ability to maintain and increase the number of clients offering job opportunities on our Xiang Recruitment Platform, and the quantity and quality of job postings, as well as the overall user experience and quality of interaction with our business. We generate and expect to continue to generate a substantial portion of our revenues from providing flexible staffing services to our clients. As a result, our results of operations are and will continue to be materially affected by our ability to retain and attract individual users and clients. This is primarily driven by factors such as the service quality of our flexible staffing services and our professional recruitment services, our service offerings, our brand reputation, our ability to convert sales leads into clients effectively and our ability to enhance user experience. In addition, we rely on our ability to retain existing business clients to drive our revenues.

As a HR services provider, we benefit significantly from the structural economic transformation and economy expansion in China. We believe that our O2O business model and know-how allow us to offer high quality and result-driven HR solutions to our clients, and render HR services to our clients in a more flexible, convenient, effective and efficient manner by leveraging data technology and extensive presence from first-tier to second- and third-tier cities with an abundance of quality laborers. For this reason, we believe our ability to continue to grow our revenues significantly depends on our ability to continue to drive our existing and

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potential business clients to embrace our HR services, utilizing our O2O business model over traditional offline recruitment or staffing service. Please refer to the section headed “Industry Overview” in this document for a detailed discussion of the various growth drivers of our industry.

Our Ability to Keep up With Rapid Changes in the HR Services Industry

Our ability to grow our business and increase profitability largely depends on us keeping up with the rapid changes in the HR services industry. We operate in the HR services industry which is subject to rapid changes in both the market conditions and the relevant laws and regulations. For instance, recent government policies including the Opinion on Advancing Entrepreneurship and Innovation and Opinions on the Development of E-commerce to Accelerate Development of the New Economic Driving Force (國務院關於大力發展電子商務加快培育經濟新動力的意見) have greatly encouraged the expansion of an optimized workforce to meet fluctuating business demands. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC government authorities may promulgate new laws and regulations regulating the HR services industry and the VATS industry in the future. Any of these changes in the HR services industry and the VATS industry may result in the prohibition or restriction of certain types of services we offer, or the imposition of new or additional licensing or other requirements could also reduce our revenues and earnings.

Effective Investment in Technology and Data Capabilities

The operation of our business highly depends on the integrity and reliability of our technology and information infrastructure that supports our integrated HR ecosystem, which include Xiang Recruitment Platform, Rui Recruitment System, Rui Cloud Management System, Rui Home Platform and Integrated Contract Management System. During the Track Record Period, we have revamped all of these platforms in order to meet our anticipated business expansion needs. Our integrated HR ecosystem directly contributed to the effectiveness and efficiency of our HR services and enables us to manage our talent pool and entire operating process centrally in order to satisfy the needs and preferences of our users and clients. As our talent pool and client base continue to grow, we plan to invest in AI and data mining technology to improve our matching results and user experience. In addition, we plan to continue to leverage the amount of data generated through various transactions to optimize our algorithm and enhance our understanding of our registered individual users and clients. We incurred approximately RMB16.6 million, RMB13.8 million, RMB13.1 million and RMB7.1 million in R&D expenses in 2016, 2017 and 2018 and the six months ended June 30, 2019, respectively. Furthermore, our ability to continue improving operational efficiency will depend on our ability to further develop and optimize our technology infrastructure across different business functions. Please refer to the section headed “Future plans and use of [REDACTED] — Use of [REDACTED]” in this document for further details.

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SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue is recognized when or as the control of the services is transferred to a client. Depending on the terms of the contract and the laws that apply to the contract, control of the services may be transferred over time or at a point in time.

Control of the services is transferred over time if our Group’s performance provides all of the benefits received and consumed simultaneously by the client. If control of the services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the client obtains control of the services.

Contracts with clients may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, we present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity’s performance and the client’s payment.

A contract asset is our Group’s right to consideration in exchange for services that have transferred to a client. A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a client pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer service to the client, we present the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer services to a client for which we have received consideration (or an amount of consideration is due) from the client.

The accounting policy for the Group’s principal revenue sources

(a) Flexible staffing

We provide flexible staffing services to meet the clients’ staffing needs with our employees performing their duties under the clients’ direct instructions, and we are primarily responsible for ensuring the quality and stability of available staffing resources. We generally enter into flexible staffing contracts with the clients to provide sufficient staffing resources for a contract term of one to two years. The clients are usually billed on a monthly basis for the service fee calculated based on a pre-agreed amount or unit rate per employee.

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Since we control flexible staffing services before transferring to the clients, and we are primarily responsible for fulfilling the contracts to ensure the quality and stability of the available staffing resources, which all together form a single performance obligation. We are subject to the risks associated with employment of the employees. Revenue for flexible staffing is recognized on a gross basis over time as the clients simultaneously receive and consume the benefits provided by our performance, while the labor costs paid to our employees are recognized as cost of revenue.

(b) Professional recruitment

We provide recruitment services of junior or middle to senior level positions of different functions across various industries. The service fee is calculated based on either a fixed fee per placement or as a percentage of the salary of the successfully placed candidates.

The recruitment contracts generally include only a single performance obligation, while for certain contracts, we also guarantee the replacement of the candidate within a short period of time, normally one month. In such case, contract price will be allocated between the recruitment and replacement service based on standalone selling price. We normally receive part of the recruitment fees upfront, which are recognized as contract liabilities. The revenue related to recruitment service is recognized at the point in time when we successfully place the candidates, and when the clients have accepted our services of providing selected candidates. The revenue related to replacement service will be recognized at the point in time when the service is provided.

Certain clients also pay membership fees to us to request a package of services, including arranging interviews or advertising job openings on our platform for a contract term of one year or less. We normally receive all of the membership fees upfront, such amount is non-refundable and recognized as contract liabilities. Under the membership fees model, the services can be divided into two categories (i) consumption-based services such as arranging interviews, top display of job postings, etc; and (ii) time-based services such as unlimited normal job postings and access to our platform, etc. Each service is a performance obligation, and the transaction price is generally allocated to each performance obligation on the basis of relatively standalone selling price. The revenue from the consumption-based services is recognized upon the consumption of the individual service. The revenue from the time-based service is recognized on a straight-line basis over the contract period.

(c) Other HR services

Other HR services comprise business position outsourcing (“BPO”) services, labor dispatch services, corporate training and other miscellaneous services.

For BPO services, we are responsible for maintaining sufficient number of employees to perform the whole business function outsourced to our Group under our direct supervision, such as call center client services. We generally enter into BPO contracts with the clients for a contract term of one year, which include only a single performance obligation. Our clients are usually billed on monthly basis for the service fee calculated based on number of employees required times unit rate per employee or a pre-agreed lump sum amount.

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Since we control BPO services before transferring to the clients, we are primarily responsible for fulfilling the contracts to ensure the quality and performance of the outsourced business function, are subject to the risks associated with employment of the employees, and have discretion in establishing prices, which all together form a single performance obligation. The BPO revenue is recognized on a gross basis over time as the clients simultaneously receive and consume the benefits provided by our Group’s performance, while the labor costs paid to our employees or our Group’s subcontractors are recognized as cost of revenue.

For labor dispatch services, our Group acts as a dispatching agent. Labor dispatch services involve a tripartite legal relationship among the employees, the clients and our Group in which the clients have a legal relationship with the employees and assume the risks associated with employment of the employees. Our Group is mainly responsible for administrative work, including onboarding and existing procedures, salary payment, etc which is considered as one performance obligation performed on a monthly basis. Although we are associated with certain risks of the employee as we help with the administration work, we do not control employee’s labor services, nor are we responsible for the employee’s fulfillment of the labor contract, or have discretion of the price paid to the employee; therefore, the labor dispatch revenue is recorded on a net basis over time as the clients simultaneously receive and consume the benefits provided by our performance of the monthly administration work, while the labor costs paid to the employees are recorded to net off revenue.

For corporate training services, we provide training and development courses which are tailored for the clients. The training services revenue is recognized at the point in time when the training courses have been delivered.

Lease

Our Group leases various properties. Property leases are typically made for fixed periods of one to six years. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants, but such leased assets may not be used as security for borrowing purposes.

Property leases are recognized as right-of-use assets (included in property, plant and equipment) and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;

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- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or our Group’s incremental borrowing rate.

For a contract that contains a lease component and service component, our Group allocates the consideration in the contract to a lease component (on the basis of the relative standalone price of such lease) and an aggregate services component (on the basis of standalone price of such services).

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise IT-equipment and small items of office furniture.

Share-based Payments

Our Group has granted tranches of share options during the Track Record Period. Our Group receives services from employees as consideration for equity instruments of our Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as expenses in the consolidated income statements.

Share Options

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing models:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, our Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

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Modifications and Cancellations

We may modify the terms and conditions on which share incentive awards were granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the remainder of the vesting period.

A grant of share incentive awards, that is canceled or settled during the vesting period, is treated as an acceleration of vesting. We immediately recognize the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

Share-based Payments Transactions Among Group Entities

The grant by the Company of share options to the employees of the subsidiaries are treated as a capital contribution in the separate financial statements of the Company. The fair value of employee services received, determined by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding adjustment to equity in our separate financial statements.

Hybrid Financial Instruments

Hybrid financial instruments include convertible bonds and convertible redeemable preferred shares.

Convertible Bonds

Convertible bonds which entitle the holder a put option (i.e. an option to require the Group to redeem in cash) and an option to convert into a variable number of equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as compound instruments consisting of a liability and a derivative component.

Preferred Shares

Preferred Shares which entitle the holder to participate in dividends appropriation in preference to holders of ordinary shares, subject to the discretion of our Directors, are regarded as compound instruments.

Pursuant to HKFRS 9, hybrid financial instruments are accounted for in their entirety as financial liabilities through profit and loss, with fair value changes reflected in FVPL within the consolidated income statements, except for the portion attributable to credit risk change that should be charged to other comprehensive income. Accordingly, the embedded conversion features do not require future evaluation, bifurcation, and separate accounting as the change in fair value of embedded feature is reflected in the change in fair value in the compound instruments under such “whole instruments” approach. Costs that are directly attributable to the issue of the instruments, designed as financial liabilities at fair value through profit and loss, are recognized immediately in the consolidated income statements.

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The instruments are classified as non-current liabilities unless we have an obligation to settle the liability within 12 months after the end of the reporting period.

Fair value of hybrid financial instruments

Our Company has issued to the [REDACTED] certain financial instruments (including convertible bonds and preferred shares) which are accounted for as financial liabilities at fair value on the consolidated balance sheets, with fair value changes reflected within the consolidated income statements, as further set forth in note 25 to the Accountant’s Report in Appendix I. The fair value of convertible bonds was determined by the respective fair value of liabilities and equity with estimated probabilities regarding scenarios of repayment and conversion. The fair value of preferred shares was determined by the option-pricing method and the equity allocation model with the estimated probabilities regarding the scenarios of liquidation, redemption, and initial [REDACTED].

To determine the fair value of the underlying equity value of our Company, valuation techniques including the market approach (the back-solve method) and the discount cash flow approach were used for December 31, 2016 and December 31, 2017, 2018 and June 30, 2019, respectively. Valuation models used by the valuer make use of market inputs and also rely on our own specific data. However, it should be noted that some inputs, such as the fair value of the underlying equity value of our Company, and possibilities under different scenarios such as liquidation and initial [REDACTED], require management estimates and judgments. Unobservable inputs such as risky interest rate, discount rate, and discount for lack of marketability, are unpredictable by nature and inherently involve a certain degree of uncertainty.

In relation to the valuation work performed by the valuer for the financial instruments, the Directors have performed the following procedures, namely: (i) reviewed the valuer’s qualification and experience and the scope of work of the valuer’s mandate before its engagement; (ii) provided all material information likely to affect the valuation as part of the instructions to the valuer so that the valuation can take into account all relevant matters; (iii) reviewed the valuation methodologies on which the valuation was based; (iv) participated in the due diligences and discussions with the valuer, the Reporting Accountant, and the Sole Sponsor about the key bases and assumptions contained in the valuation report; (v) read and reconfirmed the accuracy of the relevant notes in the Accountant’s Report; and (vi) noted that the historical financial information in the Accountant’s Report, as set forth in Appendix I to this document, gives a true and fair view of the financial position of the Group and its financial performance and its cash flows for the Track Record Period as a whole. Based on the above, the Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of the Group are properly prepared.

Details of the hybrid financial instruments and key assumptions used to determine the fair value of convertible bonds and preferred shares, and a quantitative sensitivity analysis of the fair value measurements of the financial instruments to changes in unobservable inputs are set forth in note 25 to the Accountant’s Report issued by the Reporting Accountant in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by

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the Hong Kong Institute of Certified Public Accountants, as set forth in Appendix I to this document. The historical financial information in the Accountant's Report gives a true and fair view of the financial position of the Group and its financial performance and its cash flows for the Track Record Period as a whole, as set forth on I-2 of Appendix I to this document.

In relation to the valuation analysis performed by the valuer on the hybrid financial instruments, the Sole Sponsor has conducted relevant due diligence work, including (i) reviewing the valuer's qualification and experience and the scope of work set out in the valuer's mandate, as well as confirming its independence from the Company, (ii) discussing with the Company, the valuer, and the Reporting Accountant about the valuation methodologies on which the valuation was based; (iii) discussing with the Company, the valuer, and the Reporting Accountant in several meetings about the key bases and assumptions contained in the valuation report; and (iv) reading the relevant notes in the Accountant's Report in Appendix I to the document. Having considered the work done by the Directors and the Reporting Accountant, the unqualified opinion on the historical financial information for the Track Record Period as a whole issued by the Reporting Accountant, and the relevant due diligence work performed as described above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation analysis performed by the valuer on the financial instruments in any material respect.

For further details, please also refer to the sections headed “Risk Factors — We are exposed to fair value changes for financial instruments as their determination involves the use of unobservable inputs, and our financial results for 2019 could be adversely affected by the realization of potential fair value loss on the hybrid financial instruments” and “Financial Information — Non-HKFRS Measures”.

Adoption of HKFRS 9 and HKFRS 15

HKFRS9 “Financial instruments” (“**HKFRS 9**”) and HKFRS15 “Revenue from Contracts with Customers” (“**HKFRS 15**”) have been adopted and applied consistently in our consolidated financial statement since the beginning of, and throughout, the Track Record Period, in lieu of HKAS 39 “Financial instruments: Recognition and measurement” (“**HKAS 39**”) and HKAS 18 “Revenue” (“**HKAS 18**”), respectively, so as to make our consolidated financial statements comparable on a period-to-period basis and to allow the investors to better understand our financial performance and position. Nonetheless, in order to provide additional information to the investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 39 and HKAS 18.

Based on our internal assessments, the adoption of HKFRS 9 and HKFRS 15 has no significant impact on the Group's financial position and performance as compared with HKAS 39 and HKAS 18, except that contract liabilities amounting to approximately RMB14.4 million, RMB17.6 million, RMB26.9 million and RMB24.3 million as of December 31, 2016, 2017 and 2018 and June 30, 2019, respectively, would have been reclassified as advance from customers if HKAS 18 has been applied throughout the Track Record Period.

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Adoption of HKFRS 16

HKFRS 16, “Leases” (“**HKFRS 16**”) has been adopted and applied consistently in our consolidated financial statement since the beginning of, and throughout, the Track Record Period, in lieu of HKAS 17, “Leases” (“**HKAS 17**”) so as to make our consolidated financial statements comparable on a period-to-period basis and to allow the investors to better understand our financial performance and position. Nonetheless, in order to provide additional information to the investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 17.

Under HKAS 17, operating lease payments are charged to the consolidated income statement on a straight-line basis over the period of the lease, and operating lease commitments are disclosed separately in a note to the consolidated financial statement and are recognized outside of the consolidated statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognized in the form of assets (being the right-of-use assets classified under properties, plant and equipment in our financial statements) and financial liabilities (being the lease liabilities in our financial statements) on our consolidated statements of financial position at the commencement of respective leases.

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Based on our internal assessments, the impact on profit after tax and total deficit would have been insignificant if HKAS 17 had been adopted. The table below summarizes the impacts of the adoption of HKFRS 16 on certain key items of our consolidated financial statements and key ratios:

	Currently reported under HKFRS 16 (a)	As if reported under HKAS 17 (b)	Difference (a) - (b)
Loss after tax (in RMB'000)			
- For the year ended December 31 2016	35,420	35,195	225
- For the year ended December 31 2017	44,005	45,143	(1,138)
- For the year ended December 31 2018	136,935	137,644	(709)
- For the six months ended June 30 2019	229,202	226,760	2,442
Total assets (in RMB'000)			
- As of December 31 2016	172,393	141,741	30,652
- As of December 31 2017	232,689	213,048	19,641
- As of December 31 2018	473,197	419,447	53,750
- As of June 30 2019	511,750	438,597	73,153
Total liabilities (in RMB'000)			
- As of December 31 2016	285,762	253,397	32,365
- As of December 31 2017	383,851	363,634	20,217
- As of December 31 2018	772,609	718,993	53,616
- As of June 30 2019	1,043,814	968,352	75,462
Total deficit (in RMB'000)			
- As of December 31 2016	113,369	111,656	1,713
- As of December 31 2017	151,162	150,586	576
- As of December 31 2018	299,412	299,546	(134)
- As of June 30 2019	532,064	529,755	2,309
Current ratio (times) (note (a))			
- As of December 31 2016	0.8	0.8	—
- As of December 31 2017	0.9	1.0	(0.1)
- As of December 31 2018	1.2	1.2	—
- As of June 30 2019	1.3	1.4	(0.1)

Note:

(a) Current ratio is calculated by dividing current assets by current liabilities.

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NON-HKFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented adjusted net (loss)/profit as an additional financial measure, which is not required by, nor presented in accordance with, HKFRS.

We define our adjusted net (loss)/profit as net loss or profit for the year/period excluding fair value loss of hybrid financial instruments and [REDACTED] expenses. Adjusted net (loss)/profit eliminates the effect of our [REDACTED] expenses, which are not related to our ordinary course of business and are non-recurring in nature, and of non-cash fair value loss of hybrid financial instruments, which would cease to affect our consolidated financial statements after the [REDACTED]. We present this additional financial measure as it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the actual performance of our business. We also believe that this non-HKFRS measure provides additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies. However, our presentation of adjusted net (loss)/profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

The following table reconciles our adjusted net (loss)/profit in each period of the Track Record Period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	Year Ended December 31,			Six months ended	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Reconciliation of loss for the year/period to adjusted net (loss)/profit					
(Loss)/profit for the year/period . .	(35,420)	(44,005)	(136,935)	21,147	(229,202)
Add:					
Fair value losses on hybrid financial instruments	1,922	53,875	196,542	529	277,804
[REDACTED] expenses	—	—	8,083	—	9,874
Adjusted net (loss)/profit (unaudited)	(33,498)	9,870	67,690	21,676	58,476

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RESULT OF OPERATIONS

The following table sets forth our consolidated income statements for the periods indicated:

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	376,288	776,247	1,615,891	659,026	1,077,361
Cost of revenue	(335,221)	(688,499)	(1,460,935)	(601,011)	(961,435)
Gross profit	41,067	87,748	154,956	58,015	115,926
Selling and marketing expenses	(33,942)	(33,476)	(42,394)	(16,424)	(22,989)
Research and development expenses	(16,599)	(13,807)	(13,088)	(6,501)	(7,126)
Administrative expenses	(32,827)	(32,949)	(48,095)	(17,066)	(33,060)
Other income	2,016	6,578	9,409	5,529	5,367
Other (losses)/gains, net	(1,114)	1,404	(268)	(165)	181
Net impairment losses on financial assets	(1,010)	(2,141)	(2,993)	(1,768)	(455)
Operating (loss)/profit	(42,409)	13,357	57,527	21,620	57,844
Finance income	83	45	233	163	70
Finance costs	(2,947)	(2,960)	(1,781)	(1,002)	(2,746)
Fair value loss of hybrid financial instruments	(1,922)	(53,875)	(196,542)	(529)	(277,804)
(Loss)/profit before income tax	(47,195)	(43,433)	(140,563)	20,252	(222,636)
Income tax credit/(expense)	11,775	(572)	3,628	895	(6,566)
(Loss)/profit for the year/period attributable to equity holders of the Company	(35,420)	(44,005)	(136,935)	21,147	(229,202)
NON-HKFRS MEASURES					
Adjusted net (loss)/profit (unaudited)	(33,498)	9,870	67,690	21,676	58,476

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

For the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, revenue generated from flexible staffing services accounted for approximately 84.3%, 91.0%, 93.7% and 95.0% of our total revenue, respectively. We also generated a small portion of our total revenue from providing professional recruitment services comprising (i) recruitment, and (ii) paid membership. Lastly, we generated a very small portion of our revenue by providing other HR solutions to our clients, comprising (i) BPO services, (ii) corporate training services; (iii) labor dispatch services; and (iv) other miscellaneous services. The following table sets forth sources of our revenue for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Flexible staffing	317,354	706,232	1,514,950	617,457	1,023,532
Professional Recruitment					
- <i>Recruitment</i>	44,671	51,291	62,434	27,832	27,824
- <i>Paid Membership</i>	1,963	7,354	5,935	2,532	2,398
Other HR Solutions					
- <i>BPO</i>	—	1,676	22,964	7,620	17,218
- <i>Corporate Training</i> . . .	2,472	1,583	965	189	350
- <i>Labor Dispatch</i>	9,828	8,111	8,643	3,396	3,797
- <i>Other miscellaneous services</i>	—	—	—	—	2,242
	<u>376,288</u>	<u>776,247</u>	<u>1,615,891</u>	<u>659,026</u>	<u>1,077,361</u>

Flexible Staffing. Our flexible staffing services enable our clients to utilize a dynamic mix of full-time employees of different skill sets, which allows them to staff up or down nimbly based on the workload at any given time regardless of industry, size of business and economic cycles. Our fast reaction in meeting various staffing demands of our clients allows our clients' core employees to pursue more focused and complex challenges that are central to their business without being burdened by administrative processes, while tapping the talents of flexible workers to assist with day-to-day operations. During the Track Record Period, our revenue from flexible staffing services increased as the number of contract employees deployed to ongoing flexible staffing projects increased significantly. The number of flexible staffing employees on our payroll fluctuates over time depending on client demand and projects in progress, and the figures are generally presented as of a certain point in time. Revenue is generated for the duration of an employee's employment, or “employee days worked”, and there is a cumulative effect of “employee days worked” for employees that are hired during the year and continue as an employee on the project.

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Professional Recruitment. As the hunt for talent continues to intensify in China and the difficulty in locating the right talent becomes increasingly apparent, companies face challenges in maintaining a supply of talent without accruing fixed recruiting costs that may saddle the core business with unnecessary overhead. Our professional recruitment services source candidates from our growing talent pool and attracts other job applicants from word-of-mouth and offline recruitment events. Our clients can also subscribe to a membership on a lump sum fee or a periodic payment basis, which allows our clients to access those CVs on our database based on set criteria and job postings and engage with potential job candidate through online chat, as well as set up follow up interviews, which gives our clients an option to tailor our services according to their needs. From 2016 to 2018, our revenue from professional recruitment services increased as the number of candidate placements increased and the average recruitment fee per candidate increased.

Other HR Solutions. We provide (i) BPO services where clients can outsource the entire business operation unit to us in order to further streamline their administrative burden, including the staffing requirement and the obligation to supervise these contract employees, (ii) corporate training services which are tailored to the needs of our clients, (iii) labor dispatch services where our clients remain responsible for the recruitment of these contract employees, while we charge a lower fee for managing and handling only the logistics and administrative matters of these contract employees, and (iv) other miscellaneous services where we provide tailored solutions for a client that has a number of flexible staffing employees on their payroll and engage us to design and implement training programs, management and dispute resolution policies, and employee compensation plans. During the Track Record Period, our revenue from other HR solutions increased significantly in 2018 as compared to 2017 and 2016, primarily due to increased number of contract employees hired for ongoing BPO assignments.

During the Track Record Period, we recorded significant growth in our revenue which was primarily driven by a number of factors:

- **Market growth** - according to CIC, while the HR services industry experienced a CAGR of 21.1% in terms of revenue from 2016 to 2018, and the flexible staffing services market registered a CAGR of 25.8% in terms of revenue for the same period, the flexible staffing market serving new economy industries, which many of our clients fall within, increased from RMB9.6 billion to RMB19.8 billion, with a CAGR of 43.6% for the same period.
- **Expansion of our unicorn and new economy clients** - we target rising Chinese companies as our recurring client base, and the large majority of our major clients are fast-growing unicorn companies and new economy corporates. Of our top five clients during the Track Record Period, seven out of eight were new economy clients. As unicorn and new economy clients are rapidly expanding and experiencing growth themselves, their demand for HR services tend to be higher than the industry average. Given our focus on these clients, we benefited from their higher than industry average growth rate and demand for HR services.

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- Increase in our scale of operations** - in the years prior to, and during, the Track Record Period, we underwent four rounds of [REDACTED] Investments, the [REDACTED] of which were used to develop and grow our business. During the Track Record Period, we expanded our business considerably, as we were in the ramp-up stage and anticipating an increase in demand for our services, including (i) substantially improving our core systems and key platforms in 2016, which included a major overhaul and integration of our key platforms (including Xiang Recruitment Platform, Rui Recruitment System, Rui Cloud Management System, Rui Home Platform, and the Integrated Contract Management System) to enhance service quality and efficiency; (ii) increasing coverage of our service network in China to over 150 cities; (iii) building a solid base of clients and maintaining a renewal rate of 100% for clients with an aggregated transaction amount of RMB1 million or above during the Track Record Period; and (iv) introducing our BPO business in 2017, which grew steadily and contributed RMB23.0 million to our revenue in 2018. These factors all contributed to our strong business performance over the Track Record Period.
- Higher mark-up than other industry players** - on top of the increase in number of contract employees we deployed to client projects during the Track Record Period, we were also able to generally charge a higher service premium for our flexible staffing projects, at approximately 11% of the total service fees, or a markup at approximately 12.5% of total labor costs, than the industry average for comparable job positions which is approximately 8.5% (excluding VAT) of the total service fees, or a markup of approximately 9.3% (excluding VAT of total labor costs), according to CIC.

Cost of Revenue

Our cost of revenue primarily comprises employee benefit expenses, traveling expenses, other taxes and surcharges and others, which mainly comprise depreciation and amortization, interview related communication costs, and rental and property management fees. The following table sets forth a breakdown of our cost of revenue for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Cost of Revenue:										
Employee benefit expenses . .	312,607	93.3	660,300	95.9	1,406,487	96.3	580,795	96.6	929,995	96.7
Travelling expenses . .	1,669	0.5	3,545	0.5	12,782	0.9	3,428	0.6	10,861	1.1
Other taxes and surcharges .	3,901	1.1	4,008	0.6	8,815	0.6	3,557	0.6	6,873	0.7
Others	17,044	5.1	20,646	3.0	32,851	2.2	13,231	2.2	13,707	1.5
Total	335,221	100.0	688,499	100.0	1,460,935	100.0	601,011	100.0	961,435	100.0

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Employee benefit expenses consist of (i) payroll, bonus, overtime pay, disbursements, such as travel expenses and lodging expenses, and (ii) contributions to social insurance and housing provident fund of our employees. A substantial part of our employee benefit expenses relates to our contract employees deployed to flexible staffing projects. The significant increases in our employee benefit expenses during the Track Record Period were in line with the growth of our flexible staffing services.

Gross Profit and Gross Profit Margin

Our gross profit margin in 2016, 2017 and 2018 and the six months ended June 30, 2019 was approximately 10.9%, 11.3%, 9.6% and 10.8%, respectively. Our overall gross profit margin is primarily affected by our business mix. Our professional recruitment services and labor dispatch services, which are part of our other HR solutions, have significantly higher gross profit margins. Therefore, our overall gross margin will be affected by the proportion of our professional recruitment services and labor dispatch services. The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Flexible Staffing . . .	19,206	6.1	53,023	7.5	113,119	7.5	41,904	6.8	97,715	9.5
Professional										
Recruitment	12,834	27.5	27,046	46.1	31,053	45.4	12,422	40.9	11,197	37.0
Other HR Solutions .	9,027	73.4	7,679	67.5	10,784	33.1	3,689	32.9	7,014	29.7
Total	41,067	10.9	87,748	11.3	154,956	9.6	58,015	8.8	115,926	10.8

Our gross profit margins for flexible staffing services increased from approximately 6.1% in 2016 to approximately 7.5% in 2017, and our gross profit margins for professional recruitment services increased from approximately 27.5% in 2016 to approximately 46.1% in 2017. These increases were largely due to a major system upgrade to our self-developed core system in 2016, which revamped and integrated all our operation systems and platforms and substantially improved the efficiency and effectiveness of our operations. Our gross profit margins for flexible staffing services then remained stable at approximately 7.5% for 2018, and increased to 9.5% for the six months ended June 30, 2019 compared to 6.8% for the six months ended June 30, 2018. This was primarily attributable to an increase in projects with higher gross profit margins in 2019, and in particular, those where we fill flexible staffing positions requiring IT personnel. Our gross profit margins for professional recruitment services also remained stable at approximately 45.4% for 2018, then decreased to 37.0% for the six months ended June 30, 2019 compared to 40.9% for the six months ended June 30, 2018. This was primarily attributable to increases in (i) costs for sourcing candidates as we had hired additional employees as part of our headhunting team and interview invitation expenses had also increased; and (ii) rent in tier one cities such as Beijing and Shanghai where we had chosen better premises.

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The gross profit margin for other HR solutions, which comprise BPO services, corporate training services, labor dispatch services and other miscellaneous services, was typically higher than those for the other services we provide, primarily because we incur less direct cost for these services due to the nature of this business line. Our gross profit margin for other HR solutions experienced a significant decrease from 67.5% for 2017 to 33.1% for 2018 and further to 29.7% for the six months ended June 30, 2019, compared to 32.9% for the six months ended June 30, 2018. This was primarily attributable to the significant expansion in our BPO services as reflected in the increase in number of BPO employees we hired, which has a lower gross profit margin, as well as a significant drop in revenue generated from corporate training services, both of which netted off the increase we saw in revenue generated by labor dispatch services in the same periods and other miscellaneous services we provided in the first half of 2019.

Selling and Marketing Expenses

Our selling and marketing expenses primarily comprise employee benefit expenses, marketing and promotion expenses, travelling and entertainment expenses and others, which mainly comprise depreciation and amortization, utilities and office expenses and rental and property management fees. The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Selling and Marketing Expenses:										
Employee benefit expenses	22,057	65.0	19,971	59.6	22,386	52.8	9,739	59.3	9,312	40.5
Travelling and entertainment expenses	3,030	8.9	3,702	11.1	4,541	10.7	1,743	10.6	2,174	9.5
Marketing and promotion expenses	7,116	21.0	8,240	24.6	13,166	31.1	3,632	22.1	9,877	43.0
Others	1,739	5.1	1,563	4.7	2,301	5.4	1,309	8.0	1,627	7.0
Total	33,942	100.0	33,476	100.0	42,394	100.0	16,424	100.0	22,989	100.0

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For the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, employee benefit expenses contributed approximately 65.0%, 59.6%, 52.8% and 40.5% of our selling and marketing expenses, respectively. Our employee benefit expenses for our sales and marketing personnel only fluctuated slightly over the Track Record Period, but its contribution to the total selling and marketing expenses decreased steadily as we increased our spending on marketing and promotional activities in an effort to raise brand awareness. These mainly represented both online and offline media promotional expenses, such as placing advertisements on portal websites, forums and social media platforms and arranging campus recruitment events. We believe these efforts were useful in raising our profile and increasing our talent pool.

Research and Development Expenses

Our R&D expenses primarily comprise employee benefit expenses, utilities and office expenses, depreciation and amortization and other expenses incurred in connection with the research and development of our platform, software and technologies. The following table sets forth a breakdown of our R&D expenses for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Research and Development Expenses:										
Employee benefit expenses	14,720	88.7	11,097	80.4	10,882	83.2	5,571	85.7	5,838	81.9
Utilities and office expenses	369	2.2	509	3.7	359	2.7	47	0.7	305	4.3
Depreciation and amortization	1,088	6.6	1,644	11.9	1,360	10.4	581	8.9	561	7.9
Others	422	2.5	557	4.0	487	3.7	302	4.6	421	5.9
Total	<u>16,599</u>	<u>100.0</u>	<u>13,807</u>	<u>100.0</u>	<u>13,088</u>	<u>100.0</u>	<u>6,501</u>	<u>100.0</u>	<u>7,126</u>	<u>100.0</u>

Employee benefit expenses mainly represent salaries, bonuses and welfare paid to our R&D personnel. Others mainly comprise traveling expenses, professional service fees and rental and property management fees for office space that we allocated to R&D department.

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Administrative Expenses

Our administrative expenses primarily comprise employee benefit expenses, depreciation and amortization, professional service fees and other expenses. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
							<i>(unaudited)</i>			
Administrative Expenses:										
Employee benefit expenses	16,155.0	49.2	18,079	54.8	23,308	48.4	9,804	57.4	11,856	35.9
Depreciation and amortization	6,202	18.9	7,579	23.0	5,321	11.1	3,412	20.0	3,978	12.0
Professional service fees	2,439.3	7.4	974	3.0	10,705	22.3	610	3.6	1,132	3.4
Others	8,031.1	24.5	6,317	19.2	8,761	18.2	3,240	19.0	16,094	48.7
Total	32,827	100.0	32,949	100.0	48,095	100.0	17,066	100.0	33,060	100.0

Employee benefit expenses mainly represent salaries, bonuses and welfare paid to our administrative staff. Others mainly comprise traveling expenses, utilities and office expenses, other taxes and surcharges, rental and property management fees and [REDACTED] expenses.

Fair Value Losses on Hybrid Financial Instruments

The following table sets forth our fair value losses on hybrid financial instruments in absolute amounts for the periods indicated:

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Fair value losses on hybrid financial instruments	(1,922)	(53,875)	(196,542)	(529)	(277,804)

Hybrid financial instruments include convertible bonds and preferred shares, which are designed as financial liabilities at fair value through profit and loss. The fair value at respective reporting dates is determined using valuation techniques. Please refer to Notes 3.3 and 25 to the Accountant's Report in Appendix I to this document for details of the key assumptions of the valuations. Upon the completion of the [REDACTED], all of the Preferred Shares will be automatically converted into the Shares on an one-to-one basis.

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Other Income

Other income primarily comprises income we derive from government grants and tax refunds. The following table sets forth a breakdown of our other income for the periods indicated:

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Government grant . .	1,967	6,285	9,108	5,406	5,246
Others	49	293	301	123	121
	<u>2,016</u>	<u>6,578</u>	<u>9,409</u>	<u>5,529</u>	<u>5,367</u>

The government grants mainly represented financial support funds from certain government authorities as an incentive to encourage HR service providers to relocate to various HR services industrial parks and to promote further development of the software industry in China. There were no specific conditions or other contingencies attached to these grants, and therefore, the Group recognized the grants upon receipt.

Other Net (Losses)/Gains

The following table sets forth our other net losses or gains for the periods indicated:

	Year Ended December 31,			Six months ended	
	2016	2017	2018	June 30,	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net losses on disposal of property, plant and equipment	(238)	(105)	(18)	—	(31)
Exchange (losses)/gains-net	(538)	529	(129)	(121)	(33)
Gains on early termination of lease contracts	153	982	—	—	300
Others	(491)	(2)	(121)	(44)	(55)
	<u>(1,114)</u>	<u>1,404</u>	<u>(268)</u>	<u>(165)</u>	<u>181</u>

Net Finance Costs

Net finance costs primarily consist of interest income on cash and cash equivalents, interest expenses on lease liabilities, interest expenses on amount due to related parties and interest expenses on borrowings.

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The following table sets forth our net finance costs for the periods indicated:

	Year Ended December 31,			Six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
<i>Finance income</i>					
Interest income on cash and cash equivalents	83	45	233	163	70
<i>Finance costs</i>					
Interest expenses on lease liabilities	(2,290)	(1,976)	(1,224)	(677)	(2,468)
Interest expenses on amounts due to related parties	(475)	(430)	(310)	(177)	—
Interest expenses on borrowings	(182)	(554)	(247)	(148)	(278)
	(2,947)	(2,960)	(1,781)	(1,002)	(2,746)
Finance costs, net	(2,864)	(2,915)	(1,548)	(839)	(2,676)

Loss/Profit Before Income Tax

The following table sets forth our loss or profit before income tax and as a percentage of our revenues for the periods indicated:

	Year Ended December 31,						Six months ended June 30,			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
(Loss)/profit before income tax	(47,195)	(12.5)	(43,433)	(5.6)	(140,563)	(8.7)	20,252	3.1	(222,636)	(20.7)

Taxation

Cayman Islands

Under the current laws of the Cayman Islands, our Company incorporated in the Cayman Islands is not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to equity holders.

Hong Kong

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

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PRC

PRC corporate income tax (“CIT”) provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate was 25% during the Track Record Period.

According to CIT law, distribution of profits earned by PRC companies since February 2015 is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the Track Record Period, our Group had incurred accumulated losses and does not have any profit distribution plan.

Pursuant to the “Circular on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry” (Cai Shui [2012] No. 27) (關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知(財稅[2012]27號)), a subsidiary of the Group was entitled to a two-year exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first profit-making year. A subsidiary of our Group qualified for this policy and enjoyed the exemption from income taxes from January 1, 2018.

Loss/Profit for the Year/Period

The following table sets forth our loss or profit attributable to equity holders of the Company and as a percentage of our revenues for the periods indicated:

Year Ended December 31,						Six months ended June 30,			
2016		2017		2018		2018		2019	
RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(unaudited)									
(Loss)/profit for the year/period									
(35,420)	(9.4)	(44,005)	(5.7)	(136,935)	(8.5)	21,147	3.2	(229,202)	(21.3)

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2019 compared to six months ended June 30, 2018

Revenue

Our revenue increased by 63.5% from RMB659.0 million for the six months ended June 30, 2018 to RMB1,077.4 million for the six months ended June 30, 2019. This increase was primarily driven by (i) considerable growth in our flexible staffing services, generating an increase in revenue from RMB617.5 million for the six months ended June 30, 2018 to RMB1,023.5 million for the six months ended June 30, 2019, mainly due to the increase in number of flexible staffing employees deployed to ongoing flexible staffing projects from approximately 14,700 as of June 30, 2018 to approximately 20,000 as of June 30, 2019 and

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significant increases in projects with certain key clients as they required more information verification and IT personnel positions to be filled, coupled with the higher service fees charged for these positions on a per flexible staffing employee basis; and (ii) continued growth in our BPO services, which generated an increase in revenue from RMB7.6 million for the six months ended June 30, 2018 to RMB17.2 million for the six months ended June 30, 2019, mainly due to the increase in contract employees employed for BPO projects from approximately 300 as of June 30, 2018 to approximately 500 as of June 30, 2019, as necessitated by the additional BPO projects for which we were engaged.

Our revenue generated from professional recruitment services remained steady from RMB30.4 million for the six months ended June 30, 2018 to RMB30.2 million for the six months ended June 30, 2019 as clients were not actively looking to expand their teams given the weakened economic climate in the beginning of 2019. In contrast, clients were more likely to utilize flexible staffing services as this provided more flexibility since the employees would be hired by us and on our payroll.

Cost of Revenue

Our cost of revenue increased by 60.0% from RMB 601.0 million for the six months ended June 30, 2018 to RMB961.4 million for the six months ended June 30, 2019. This increase was generally in line with our increase in revenue during the same periods as we continued expanding our business and deploying more contract employees for client projects. In particular, this increase was mainly driven by (i) a 60.1% increase in employee benefit expenses from RMB580.8 million for the six months ended June 30, 2018 to RMB930.0 million for the six months ended June 30, 2019 as we increased the number of contract employees on our payroll; and (ii) a 216.8% increase in traveling and entertainment expenses from RMB3.4 million for the six months ended June 30, 2018 to RMB10.9 million for the six months ended June 30, 2019 as we had allowed our contract employees on certain flexible staffing projects to claim traveling expenses based on clients' requests, which we would then charge as disbursements to our clients.

Gross Profit

Our gross profit increased by 99.8% from RMB58.0 million for the six months ended June 30, 2018 to RMB115.9 million for the six months ended June 30, 2019. Our gross profit margin increased from 8.8% for the six months ended June 30, 2018 to 10.8% for the six months ended June 30, 2019, primarily driven by an increase in flexible staffing projects with higher margins undertaken in 2019.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 40.2% from RMB16.4 million for the six months ended June 30, 2018 to RMB23.0 million for the six months ended June 30, 2019, mainly due to (i) a significant increase in marketing and promotion expenses as we carried out an advertising campaign, including placing advertisements at various subway stations. Our selling and marketing expenses as a percentage of revenue remained steady from 2.5% for the six months ended June 30, 2018 to 2.1% for the six months ended June 30, 2019.

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Research and Development Expenses

Our R&D expenses increased slightly by 9.2% from RMB6.5 million for the six months ended June 30, 2018 to RMB7.1 million for the six months ended June 30, 2019, mainly due to increase in salaries of R&D employees.

Administrative Expenses

Our administrative expenses increased by 93.6% from RMB17.1 million for the six months ended June 30, 2018 to RMB33.1 million for the six months ended June 30, 2019, mainly due to (i) [REDACTED] expenses of approximately RMB9.9 million, and (ii) an increase in salaries and benefits paid to employees as a number of management or department leadership positions were created or filled in the first half of 2019 as part of our business expansion. Our administrative expenses as a percentage of revenue remained steady from 2.6% for the six months ended June 30, 2018 to 3.1% for the six months ended June 30, 2019.

Other Income

Our other income was stable and decreased slightly by 1.8% from RMB5.5 million for the six months ended June 30, 2018 to RMB5.4 million for the six months ended June 30, 2019.

Operating profit

As a result of the foregoing, our operating profit increased from RMB21.6 million for the six months ended June 30, 2018 to RMB57.8 million for the six months ended June 30, 2019, representing an increase of 167.6%.

Net Finance Costs

Net finance cost increased from RMB0.8 million for the six months ended June 30, 2018 to RMB2.7 million for the six months ended June 30, 2019, primarily due to the increase in interest expenses on lease liabilities as a result of the application of HKFRS16 to our office leases.

Fair Value Losses on Hybrid Financial Instruments

Our fair value losses on hybrid financial instruments increased from RMB0.5 million for the six months ended June 30, 2018 to RMB277.8 million for the six months ended June 30, 2019 primarily due to changes in valuation of our Company. Please refer to “— Significant Accounting Policies — Hybrid financial instruments” in this section for further details.

Loss/Profit Before Income Tax

As a result of the foregoing, our profit before income tax decreased from RMB20.3 million for the six months ended June 30, 2018 to a loss of RMB222.6 million for the six months ended June 30, 2019.

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Income Tax

Income tax expense decreased from a tax credit of RMB0.9 million for the six months ended June 30, 2018 to a tax expense of RMB6.6 million for the six months ended June 30, 2019 as certain subsidiaries began to make profit and accumulated losses from the previous period were fully utilized.

Loss/Profit for the Period

As a result of the foregoing, our profit decreased from RMB21.1 million for the six months ended June 30, 2018 to a loss of RMB229.2 million for the six months ended June 30, 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased by 108.2% from RMB776.2 million for the year ended December 31, 2017 to RMB1,615.9 million for the year ended December 31, 2018. This increase was primarily driven by (i) significant growth in our flexible staffing services, generating RMB706.2 million for the year ended December 31, 2017 to RMB1,515.0 million for the year ended December 31, 2018, due to increase in number of flexible staffing employees deployed to ongoing flexible staffing projects from approximately 13,500 flexible staffing employees as of December 31, 2017 to approximately 19,400 flexible staffing employees as of December 31, 2018, largely due to an increase in the scale of sizeable information verification projects from one of our existing Chinese internet technology clients as they expanded their business operations of content delivery in a variety of formats across second-tier cities in China such as Xi'an and Chengdu and set up new information verification operations, as well as increase in service fee charged on a per flexible staffing employee basis, (ii) increase in number of candidates recruited for our professional recruitment services clients from approximately 44,400 placements for the year ended December 31, 2017 to 48,500 placements for the year ended December 31, 2018, and at the same time, our professional recruitment services fees increased from approximately RMB1,100 per candidate placement for the year ended December 31, 2017 to approximately RMB1,250 per candidate placement for the year ended December 31, 2018, and (iii) significant growth in our BPO services, generating RMB23.0 million for the year ended December 31, 2018, which increased from RMB1.7 million for the year ended December 31, 2017. The significant growth in revenue was partially offset by a decrease of revenue from our paid membership services from RMB7.4 million to RMB5.9 million.

Cost of Revenue

Our cost of revenue increased by 112.2% from RMB688.5 million for the year ended December 31, 2017 to RMB1,460.9 million for the year ended December 31, 2018. This increase was generally in line with our increase in revenue during the same period as we continued to attract and serve more clients and scale up our operations. Specifically, it was mainly driven by (i) a 113.0% increase in employee benefit expenses from RMB660.3 million in 2017 to RMB1,406.5 million in 2018 as we continued to scale up our operations and hired

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more contract employees for ongoing projects, (ii) a 265.7% increase in traveling expenses from RMB3.5 million in 2017 to RMB12.8 million in 2018 as we allowed our contract employees on certain flexible staffing projects to claim traveling expenses based on clients’ requests which we would then charge as disbursements to our clients, and (iii) a 120% increase in other taxes and surcharges from RMB4.0 million in 2017 to RMB8.8 million in 2018, which was in line with our substantial growth in the same period.

Gross Profit

Our gross profit increased by 76.7% from RMB87.7 million for the year ended December 31, 2017 to RMB155.0 million for the year ended December 31, 2018. While the gross profit margin for our flexible staffing services and professional recruitment services remain at the same level, as a result of the foregoing and due to significant expansion in our BPO services which has a lower gross profit margin, as well as a significant drop in the revenue generated from corporate training services, both of which netted off the increase we saw in revenue generated by labor dispatch services in the same period. Our gross profit margin decreased from 11.3% for the year ended December 31, 2017 to 9.6% for the year ended December 31, 2018.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 26.6% from RMB33.5 million for the year ended December 31, 2017 to RMB42.4 million for the year ended December 31, 2018, mainly due to (i) increase in salaries, benefits and bonuses paid to our sales, sales support and marketing personnel in line with our revenue growth and business expansion, and (ii) a significant increase in marketing and promotion expenses from approximately RMB8.2 million for the year ended December 31, 2017 to RMB13.2 million for the year ended December 31, 2018. Our selling and marketing expenses as a percentage of revenue significantly decreased from 4.3% for the year ended December 31, 2017 to 2.6% for the year ended December 31, 2018, primarily due to substantial revenue growth outpacing our increase in selling and marketing expenses in the same period, as a result of improved efficiency in our selling and marketing activities, as well as improved brand awareness.

Research and Development Expenses

Our R&D expenses decreased slightly by 5.1% from RMB13.8 million for the year ended December 31, 2017 to RMB13.1 million for the year ended December 31, 2018, mainly due to the decrease in our R&D personnel headcount from an average of 36 employees in 2017 to an average of 33 employees in 2018.

Administrative Expenses

Our administrative expenses increased by 46.2% from RMB32.9 million for the year ended December 31, 2017 to RMB48.1 million for the year ended December 31, 2018, primarily due to (i) increase in salaries, benefits and bonus paid to administrative personnel from RMB18.1 million to RMB23.3 million, and (ii) increase in professional service fees from RMB1.0 million in 2017 to RMB10.7 million in 2018, which included [REDACTED] expenses of

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RMB8.1 million. Our administrative expenses as a percentage of revenue decreased from 4.2% for the year ended December 31, 2017 to 3.0% for the year ended December 31, 2018, primarily due to slower increase in administrative expenses compared to substantial revenue growth in the same period, as a result of improved operational efficiency.

Other Income

Other income increased by 42.4% from RMB6.6 million for the year ended December 31, 2017 to RMB9.4 million for the year ended December 31, 2018, primarily as a result of increased government grants and subsidies from certain government authorities by 44.4% from RMB6.3 million for the year ended December 31, 2017 to RMB9.1 million for the year ended December 31, 2018 as an incentive to encourage HR services providers to relocate their operations to various HR services industrial parks.

Operating profit

As a result of the foregoing, our operating profit increased from RMB13.4 million for the year ended December 31, 2017 to RMB57.5 million for the year ended December 31, 2018, representing an increase of 329.1%.

Net Finance Costs

Net finance cost decreased from RMB2.9 million for the year ended December 31, 2017 to RMB1.5 million for the year ended December 31, 2018, primarily as a result of (i) decrease in interest expenses on lease liabilities in accordance with HKFRS 16, and (ii) decrease in interest expenses on borrowings in 2018.

Fair Value Losses on Hybrid Financial Instruments

Our fair value losses on hybrid financial instruments increased significantly from RMB53.9 million for the year ended December 31, 2017 to RMB196.5 million for the year ended December 31, 2018, primarily as a result of increase in our Company value. Please refer to “— Significant Accounting Policies — Hybrid financial instruments” in this section for further details.

Loss Before Income Tax

As a result of the foregoing, our loss before income tax increased from RMB43.4 million for the year ended December 31, 2017 to RMB140.6 million for the year ended December 31, 2018.

Income Tax

Income tax expense decreased from a tax expense of RMB0.6 million for the year ended December 31, 2017 to a tax credit of RMB3.6 million for the year ended December 31, 2018 due to an increase in operating profit from RMB13.4 million in 2017 to RMB57.5 million in 2018, netted off by the tax exemption of RMB14.1 million qualified by a subsidiary of the Group.

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Loss for the Year

Loss increased from RMB44.0 million for the year ended December 31, 2017 to RMB136.9 million for the year ended December 31, 2018, as a result of the aforementioned changes.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Our revenue increased by 106.3% from RMB376.3 million for the year ended December 31, 2016 to RMB776.2 million for the year ended December 31, 2017. This increase was primarily due to (i) increase in number of flexible staffing employees deployed to ongoing flexible staffing projects from approximately 4,400 flexible staffing employees as of December 31, 2016 to approximately 13,500 flexible staffing employees as of December 31, 2017, largely due to major flexible staffing projects from certain new clients in new economy industries which had higher contract value and contributed a significant portion of the revenue generated in 2017, as well as certain existing clients who expanded into new lines of business with increased staffing needs, and (ii) our Group being able to successfully obtain several new professional recruitment services clients in 2017, as a result of our improved sales coverage and more established branding, which enabled us to charge a higher fee per placement from approximately RMB900 per candidate placement for the year ended December 31, 2016 to approximately RMB1,100 per candidate placement for the year ended December 31, 2017.

Cost of Revenue

Our cost of revenue increased by 105.4% from RMB335.2 million for the year ended December 31, 2016 to RMB688.5 million for the year ended December 31, 2017. This increase was generally in line with our revenue increase during the same period as we continued to attract and serve our clients and scale up our operations. Specifically, it was mainly driven by a 111.2% increase in employee benefits expenses from RMB312.6 million in 2016 to RMB660.3 million in 2017 as we increased our contract employee headcount to support project execution.

Gross Profit

As a result of the foregoing, our gross profit increased by 113.4% from RMB41.1 million for the year ended December 31, 2016 to RMB87.7 million for the year ended December 31, 2017. This increase was due to a major system upgrade to our self-developed core system in 2016, which substantially improved the efficiency and effectiveness of our operations. Our gross profit margin increased slightly from 10.9% for the year ended December 31, 2016 to 11.3% for the year ended December 31, 2017.

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Selling and Marketing Expenses

Our selling and marketing expenses decreased slightly from RMB33.9 million for the year ended December 31, 2016 to RMB33.5 million for the year ended December 31, 2017, mainly due to a decrease in headcount of our selling and marketing personnel, while partially offset by an increase in our spending on marketing and promotional activities in 2017.

Our selling and marketing expenses as a percentage of revenue decreased significantly from 9.0% for the year ended December 31, 2016 to 4.3% for the year ended December 31, 2017, primarily due to substantial revenue growth outpacing our increase in selling and marketing expenses in the same period, as a result of improved efficiency in our selling and marketing activities, as well as improved brand awareness.

Research and Development Expenses

Our R&D expenses decreased by 16.9% from RMB16.6 million for the year ended December 31, 2016 to RMB13.8 million for the year ended December 31, 2017, mainly due to a decrease in the headcount of the R&D department from an average of 48 employees in 2016 to an average of 36 employees in 2017. Our R&D expenses as a percentage of revenue decreased from 4.4% for the year ended December 31, 2016 to 1.8% for the year ended December 31, 2017, primarily as a result of a slower increase in R&D investment subsequent to our major system revamp in 2016 compared to substantial revenue growth in the same period.

Administrative Expenses

Our administrative expenses remained largely at the same level at RMB32.8 million for the year ended December 31, 2016 and RMB32.9 million for the year ended December 31, 2017, primarily due to an increase in employment benefits expenses from RMB16.2 million for the year ended December 31, 2016 to RMB18.1 million for the year ended December 31, 2017, while partially offset by a decrease in professional service fees from RMB2.4 million for the year ended December 31, 2016 to RMB1 million for the year ended December 31, 2017. Our administrative expenses as a percentage of revenue decreased from 8.7% for the year ended December 31, 2016 to 4.3% for the year ended December 31, 2017, primarily due to slower increase in administrative expenses compared to substantial revenue growth in the same period, as a result of improved operational efficiency.

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Other Income

Other income increased significantly from RMB2.0 million for the year ended December 31, 2016 to RMB6.6 million for the year ended December 31, 2017, largely as a result of the significant government subsidies given to our operation by various local government authorities.

(Loss)/Profit From Operations

As a result of the foregoing, our loss from operations decreased from a loss of RMB42.4 million for the year ended December 31, 2016 to a profit of RMB13.4 million for the year ended December 31, 2017, primarily due to an increase in gross profit resulting from the major overhaul, improvement and integration of our key platforms, which substantially increased the effectiveness and efficiency of our operations.

Net Finance Cost

Net finance cost remained largely at the same level at RMB2.9 million for the year ended December 31, 2016 and the year ended December 31, 2017.

Fair Value Losses on Hybrid Financial Instruments

Our fair value losses on hybrid financial instruments increased significantly from RMB1.9 million for the year ended December 31, 2016 to RMB53.9 million for the year ended December 31, 2017, primarily due to increase in our Company value. Please refer to “— Significant Accounting Policies — Hybrid financial instruments” in this section for further details.

Loss Before Income Tax

As a result of the foregoing, our loss before income tax decreased from RMB47.2 million for the year ended December 31, 2016 to RMB43.4 million for the year ended December 31, 2017.

Income Tax

Income tax expense increased from a tax credit of RMB11.8 million for the year ended December 31, 2016 to a tax expense of RMB0.6 million for the year ended December 31, 2017. This increase in income tax expenses was due to our Company becoming profitable from our operations.

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Loss for the Year

Loss increased from RMB35.4 million for the year ended December 31, 2016 to RMB44.0 million for the year ended December 31, 2017, as a result of the changes detailed above.

DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED BALANCE SHEETS

The table below sets forth selected information from our consolidated balance sheets as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document:

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Total non-current assets	66,079	54,023	93,404	109,383
Total current assets	106,314	178,666	379,793	402,367
Total assets	172,393	232,689	473,197	511,750
Total non-current liabilities	145,941	195,058	443,790	742,784
Total current liabilities	139,821	188,793	328,819	301,030
Total liabilities	285,762	383,851	772,609	1,043,814
Share capital	18	18	18	18
Other reserves	(1,830)	4,382	(6,933)	(10,383)
Accumulated losses	(111,557)	(155,562)	(292,497)	(521,699)
Total deficit	(113,369)	(151,162)	(299,412)	(532,064)
Total liabilities and deficit	172,393	232,689	473,197	511,750

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Current Assets and Current Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Trade and notes receivables	91,078	154,695	331,444	333,902	289,481
Prepayments, deposits and other receivables	2,390	2,697	7,990	14,313	11,882
Amounts due from a related party	18	18	18	—	—
Cash and cash equivalents	12,828	21,256	40,341	54,152	82,443
Total current assets	106,314	178,666	379,793	402,367	383,806
Current liabilities					
Trade and other payables	96,382	147,702	279,720	242,816	215,896
Amounts due to related parties	7,669	6,331	—	—	—
Contract liabilities	14,382	17,634	26,929	24,265	16,633
Current income tax liabilities	38	—	—	2,681	2,681
Borrowings	9,400	4,050	10,000	13,400	—
Lease liabilities	11,950	13,076	12,170	17,868	12,258
Total current liabilities	139,821	188,793	328,819	301,030	247,468
Net current (liabilities)/assets	(33,507)	(10,127)	50,974	101,337	136,338

Our net current liabilities decreased from RMB33.5 million as of December 31, 2016 to RMB10.1 million as of December 31, 2017. As of December 31, 2018, we had net current assets of RMB51.0 million, and as of June 30, 2019, we had net current assets of RMB101.3 million. We continued to have net current assets of RMB[136.3] million as of [September 30], 2019.

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Our net current liabilities as of December 31, 2016 was due in part to (i) our application of HKFRS 16 for our property leases, resulting in lease liabilities of RMB12.0 million recorded as current liabilities while the corresponding right-of-use assets were recorded under our property, plant and equipment of our non-current assets, (ii) our borrowings of RMB9.4 million and loan of RMB7.7 million from related parties, and (iii) our trade and other payables of RMB96.4 million and contract liabilities of RMB14.4 million representing non-refundable advance payments received from clients for services not yet provided and expected to be satisfied in the upcoming year, which were only partially offset by RMB91.1 million in trade and notes receivables and RMB12.8 million in cash and cash equivalents.

The decrease in net current liabilities from December 31, 2016 to December 31, 2017 of RMB23.4 million was mainly because of an increase in our cash and cash equivalents of RMB8.4 million, as well as a large increase of RMB63.6 million in our trade and notes receivables which was only partially offset by the increase in our trade and other payables of RMB51.3 million. These changes resulted from the increase in our business scale as we expanded our businesses of flexible staffing services and one-stop HR solutions to cover more than 150 cities across China, as well as launched our BPO business in the same period, which led to an overall increase in sales and thus receivables. Cash generated from operating activities facilitated the increase in cash on hand.

This growth continued in 2018, and our net current assets as of December 31, 2018 increased to RMB51.0 million due to large increases in our trade and notes receivables of RMB176.7 million and cash and cash equivalents of RMB19.1 million, which were only partially offset by a large increase in our trade and other payables of RMB132.0 million.

Our net current assets further increased to RMB101.3 million as of June 30, 2019 mainly due to (i) increases in our cash and cash equivalents of RMB13.8 million and prepayments, deposits and other receivables of RMB6.3 million as we continued expanding our business and also recorded an increase in our prepaid [REDACTED] expenses, and (ii) decreases in our trade and other payables of RMB36.9 million. This was partially offset by slight increases in our borrowings of RMB3.4 million and lease liabilities of RMB5.7 million. Our net current assets increased to RMB[136.3] million as of [September 30, 2019] as the decreases in our trade and other payables and borrowings were only partially offset by the decrease in our trade and notes receivables and the increase in our cash and cash equivalents.

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Trade and Notes Receivables

Trade and notes receivables represent amounts due from our clients for services performed in the ordinary course of business. The following table sets forth our trade and notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	92,052	157,595	337,545	340,158
Less: provision for impairment of trade receivables	(974)	(3,135)	(6,101)	(6,256)
Trade receivables - net.	91,078	154,460	331,444	333,902
Notes receivables	—	235	—	—
	<u>91,078</u>	<u>154,695</u>	<u>331,444</u>	<u>333,902</u>

Our trade and notes receivables increased by 69.6% from RMB91.1 million as of December 31, 2016 to RMB154.7 million as of December 31, 2017, and further increased by 114.3% to RMB331.4 million as of December 31, 2018. Our trade and notes receivables remained steady at RMB333.9 million as of June 30, 2019. The increases were generally in line with the revenue growth in the same period and primarily due to the increase in our business scale over the Track Record Period. From 2016 to 2018, we experienced revenue growth of 329%. During the same period, our trade and notes receivables grew by 264%.

Our trade and notes receivables as of December 31, 2018 and June 30, 2019 had increased to RMB331.4 million and RMB333.9 million, respectively, due, in part, to a particular client to whom we extended a longer credit period as it had a longer internal approval process, after considering its background, size and scale, status as a state-owned entity, and the industry in which it operates. Our management and project managers hold regular meetings with this client to discuss the progress of outstanding payments as well as the overall process, and we expect that the settlement process will be improved in the future. We have also improved the internal review process our finance department undertakes regarding outstanding amounts due from clients, including sending regular notices and updates to regional managers and escalating to members of senior management.

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The following table sets forth an aging analysis of our trade receivables, based on the recognition date before provision for impairment, as of the dates indicated:

	As of December 31,			As of June 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
- within 3 months	90,492	153,225	320,168	302,859
- 3 months to 6 months	398	1,358	12,491	33,197
- 7 months to 9 months	366	1,051	244	295
- 10 months to 12 months	153	851	118	108
- over 1 year	643	1,110	4,524	3,699
Total	<u>92,052</u>	<u>157,595</u>	<u>337,545</u>	<u>340,158</u>

We typically grant a credit period of 10 to 70 days to our clients and clients are generally expected to pay us on a monthly basis for our services. We determine the credit period to be granted to our clients on an ongoing basis, and use a client risk assessment policy that takes into account the client's creditworthiness, prior payment history and additional client-specific information such as size, scale, their financial position and the industry in which it operates. Management also performs ongoing credit evaluation of our clients.

We apply the simplified approach to measuring expected credit losses prescribed by HKFRS 9, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Expected credit losses are determined based on historical losses incurred in the past twelve months at each reporting date. The expected credit losses also incorporate forward-looking information. As of December 31, 2016, 2017 and 2018 and June 30, 2019, a loss allowance provision of RMB974,000, RMB3.1 million, RMB6.1 million and RMB6.3 million was made against the gross amounts of trade receivables, respectively.

The table below sets forth the turnover days of our trade receivables for the years indicated:

	For the Year Ended December 31,			For the six months Ended June 30,
	2016	2017	2018	2019
Trade receivable turnover days ⁽¹⁾	67	58	55	56
Adjusted trade receivable turnover days ⁽²⁾	49	42	46	49

Notes:

1. Calculated as the average balance of trade receivables at the beginning and end of a period divided by revenue in the period then multiplied by the number of days (i.e. 365 in a year and 180 for the six-month period).

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2. Calculated as the average balance of trade receivables (excluding the labor costs arising from provision of labor dispatch services) at the beginning and end of a period divided by revenue in the period then multiplied by the number of days in the period.

Our trade receivable turnover days decreased from 67 days for 2016 to 58 days for 2017, and remained steady at 55 days for 2018 and 56 days for the six months ended June 30, 2019 primarily as a result of our efforts to accelerate collection of outstanding amounts from our clients. We consider the adjusted trade receivable turnover days, which exclude the labor costs of trade receivables arising from provision of labor dispatch services, to be a better representation of the actual average number of days it took to collect outstanding balances from our clients. This is because our revenue from provision of labor dispatch services is recorded on a net basis after labor costs paid to employees are deducted, while no such netting off occurs when recording our trade receivables. Our adjusted trade receivable turnover days during the Track Record Period were generally within the credit period of 10 to 70 days granted to our clients.

As of September 30, 2019, RMB[251.4] million, or [74.4]% of our trade receivables as of June 30, 2019 had been settled.

Prepayments, Deposits and Other Receivables

Prepayment, deposits and other receivables primarily consist of rental deposits, prepayments for third-party suppliers including those providing promotional services, and for insurance and utilities. The following table sets forth our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Prepayments	1,467	975	2,205	3,036
Prepaid [REDACTED] expenses .	—	—	2,661	5,783
Deposits	675	731	2,055	5,383
Input VAT deductible	147	809	1,096	402
Other receivables	242	303	121	157
Less: provision for impairment . . .	(141)	(121)	(148)	(448)
	<u>2,390</u>	<u>2,697</u>	<u>7,990</u>	<u>14,313</u>

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Our prepayments, deposits and other receivables increased by 12.8% from RMB2.4 million as of December 31, 2016 to RMB2.7 million as of December 31, 2017, which was mainly due to an increase in our input VAT deductible, which was generally in line with our business expansion. This was partially offset by a RMB0.5 million decrease in our prepayments from December 31, 2016 to December 31, 2017 due in part to a decrease in our prepayments for certain IT services, such as for our cloud-based backup system. There was a further increase of 196.3% to RMB8.0 million as of December 31, 2018 driven by (i) our growing business operations which necessitated a higher frequency of dealing with suppliers and third parties such as those providing promotional services, reflected in the RMB1.2 million increase in our prepayments as of December 31, 2018 compared to December 31, 2017; (ii) an increase in our deposits by RMB1.3 million as of December 31, 2018 compared to December 31, 2017, mainly reflecting rental deposits for leases that would terminate within the next year; and (iii) prepaid [REDACTED] expenses of RMB2.7 million in 2018. Our prepayments, deposits and other receivables further increased by 79.1% from RMB8.0 million as of December 31, 2018 to RMB14.3 million as of June 30, 2019, primarily driven by (i) an increase in our prepaid [REDACTED] expenses; (ii) an increase in our prepayments related to advertising; and (iii) an increase in our deposits reflecting rental deposits for our leases as we had relocated some of our offices.

Amounts due from a Related Party

As of each of December 31, 2016, 2017 and 2018, the amount due from a related party was RMB18,000. This amount was due from Ming Feng, reflecting the unpaid share capital for shares in our Company, and was non-trade in nature, unsecured, and interest-free. As of February 19, 2019, 100% of such amount had been settled.

Trade and Other Payables

Trade and other payables primarily consist of amounts we expect to pay for goods and services that have been acquired in the ordinary course of business, accrued payroll and welfare, and VAT and surcharges. The following table sets forth our trade and other payables as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Trade payables	2,851	3,125	17,393	11,654
Accrued payroll and welfare	76,100	114,078	206,354	178,370
VAT and surcharges	8,045	17,439	32,564	25,840
Risk deposit due to clients	5,185	10,165	8,821	11,363
[REDACTED] expense payable	—	—	7,511	10,447
Others	4,201	2,895	7,077	5,142
	<u>96,382</u>	<u>147,702</u>	<u>279,720</u>	<u>242,816</u>

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Our trade and other payables increased by 53.2% from RMB96.4 million as of December 31, 2016 to RMB147.7 million as of December 31, 2017, increased by 89.4% to RMB279.7 million as of December 31, 2018. These significant increases were in line with our expanding business scale and were primarily the result of (i) the increases of RMB38.0 million from December 31, 2016 to December 31, 2017 and of RMB92.3 million to December 31, 2018 in accrued payroll and welfare as the number of flexible staffing employees on our payroll increased during the Track Record Period from fewer than 5,000 as of December 31, 2016, to approximately 13,500 as of December 31, 2017, to over 19,400 as of December 31, 2018; and (ii) increases in VAT and surcharges payable from RMB8.0 million as of December 31, 2016 to RMB17.4 million as of December 31, 2017 and further to RMB32.6 million as of December 31, 2018 due to the continuing increase in our sales over the Track Record Period. Our trade and other payables then decreased by RMB36.9 million, or 13.2% to RMB242.8 million as of June 30, 2019. This was primarily the result of (i) the decrease of RMB28.0 million from December 31, 2018 to June 30, 2019 in accrued payroll and welfare due to a lower contract employee count as of June 30, 2019 than as of December 31, 2018, in particular as certain labor dispatch projects had completed and we had approximately 2,000 fewer labour dispatch employees as of June 30, 2019, and also the accrued payroll and welfare amount as of June 30, 2019 only reflected six months of accrual for bonuses; and (ii) the decrease of RMB5.7 million from December 31, 2018 to June 30, 2019 in trade payables as we were no longer requested to arrange subcontractors for a certain client.

The following table sets forth an aging analysis of our trade payables, based on the invoice date, as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Trade payables				
Within 6 months	1,934	2,847	17,393	7,879
6 months to 1 year	917	129	—	3,775
1 year to 2 years	—	149	—	—
	<u>2,851</u>	<u>3,125</u>	<u>17,393</u>	<u>11,654</u>

We were typically granted credit periods of less than one month and invoices received were to be settled monthly.

As of September 30, 2019, we had settled RMB[4.8] million, or [41.2]% of our trade payables as of June 30, 2019.

Amounts due to Related Parties

As of December 31, 2016, 2017 and 2018 and June 30, 2019, the amounts due to related parties totaled RMB7.7 million, RMB6.3 million, nil and nil, respectively. These amounts represented borrowings from Mr. JG Zhang and his spouse, and were unsecured, unpledged, and with an annual interest rate of 7.0%. 100% of such amounts were fully settled in November 2018.

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Please refer to “— Related Party Transactions” in this section for further details.

Non-Current Assets

The following table sets forth our non-current assets as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Non-current assets				
Property, plant and equipment . .	40,344	27,419	62,069	80,717
Intangible assets	311	913	603	893
Other non-current assets	2,389	3,228	4,641	5,567
Deferred income tax assets	23,035	22,463	26,091	22,206
Total non-current assets	66,079	54,023	93,404	109,383

Property, Plant and Equipment

Our property, plant and equipment primarily consist of right-of-use assets, computer equipment, electrical appliances, furniture and leasehold improvements.

As of December 31, 2016, 2017 and 2018 and June 30, 2019, our property, plant and equipment were RMB40.3 million, RMB27.4 million, RMB62.1 million and RMB80.7 million, respectively. During the year ended December 31, 2016, we recorded additions of RMB21.6 million in our property, plant and equipment which was primarily attributable to the additions of right-of-use assets of approximately RMB15.1 million, computer equipment of RMB3.8 million, and leasehold improvement of RMB2.1 million mainly in connection with new office spaces we had rented. We also recorded a depreciation charge of RMB17.2 million for the year ended December 31, 2016.

The decrease in the carrying value of our property, plant and equipment of RMB12.9 million for the year ended December 31, 2017 was primarily due to the depreciation charge of RMB19.1 million in 2017, which was partially offset by our addition of right-of-use assets of RMB8.1 million and leasehold improvements of RMB1.6 million.

During the year ended December 31, 2018, we recorded an increase in carrying value of our property, plant and equipment of RMB34.7 million. This increase was primarily attributable to the addition of right-of-use assets of RMB50.1 million and leasehold improvement of RMB2.4 million when we entered into new lease agreements, such as for new office space we rented in Shanghai or renewed our lease agreements, which were partially offset by the depreciation charge of RMB18.7 million for 2018.

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For the six months ended June 30, 2019, we recorded an increase in carrying value of our property, plant and equipment of RMB18.6 million. This increase was primarily attributable to addition of right-of-use assets of RMB34.1 million and leasehold improvement of RMB1.9 million in connection with our new offices, which were partially offset by the depreciation charge of RMB12.2 million for the six months ended June 30, 2019.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	Year Ended/As of December 31,			Six months ended/ As of June 30,	
	2016	2017	2018	2018	2019
Total revenue growth	N/A	106.3%	108.2%	N/A	63.5%
Adjusted net profit growth ⁽¹⁾	N/A	N/A	585.8%	N/A	169.8%
Gross margin ⁽²⁾	10.9%	11.3%	9.6%	8.8%	10.8%
Adjusted net margin ⁽³⁾ . . .	N/A	1.3%	4.2%	3.3%	5.4%
Current ratio (times) ⁽⁴⁾ . .	0.8	0.9	1.2	N/A	1.3

Notes:

- (1) Adjusted net profit is defined as the net loss for the period excluding non-operational fair value loss of hybrid financial instruments and [REDACTED] expenses, where applicable. We had net losses for 2016, 2017, 2018 and the six months ended June 30, 2019.
- (2) Gross margin equals gross profit divided by revenue for the period and multiplied by 100%.
- (3) Adjusted net margin is calculated as the adjusted net (loss)/profit as a percentage of the revenue for the same period.
- (4) Current ratio is calculated as our current assets divided by our current liabilities at the end of each financial period.

Adjusted net profit growth

Our adjusted net profit, after adjusting for non-operational fair value losses on hybrid financial instruments in 2017 and 2018 and also applicable [REDACTED] expenses in 2018, increased by 585.8%, from RMB9.9 million in 2017 to RMB67.7 million in 2018. This substantial increase was mainly due to the large increase in our revenue and increased efficiency and effectiveness of operations coupled with the decreased selling and marketing expenses, decreased R&D expenses and decreased administrative expenses as percentages of revenue. For largely the same reasons, our adjusted net profit also increased by 63.5%, from RMB21.7 million for the six months ended June 30, 2018 to RMB58.5 million for the six months ended June 30, 2019, after adjusting for non-operational fair value losses on hybrid financial instruments for the six months ended June 30, 2018 and June 30, 2019 and also applicable [REDACTED] expenses for the six months ended June 30, 2019.

FINANCIAL INFORMATION

Adjusted net margin

Our adjusted net margin increased from 1.3% for 2017 to 4.2% for 2018 and further to 5.4% for the six months ended June 30, 2019, mainly due to our improved operational efficiency with slower corresponding increases in selling and marketing expenses and administrative expenses compared to our substantial revenue growth.

Current ratio

Our current ratio increased slightly from 0.8 as of December 31, 2016 to 0.9 as of December 31, 2017, and further increased to 1.2 as of December 31, 2018. These increases were mainly driven by (i) significant increases in our trade receivables as our business grew which was partially offset by the steady growth in our trade and other payables; (ii) increases in our cash and cash equivalents; and (iii) decreases in our amounts due to related parties. Our current ratio further increased slightly to 1.3 as of June 30, 2019 mainly driven by increases in our trade receivables, prepayments, deposits and other receivables, and cash and cash equivalents, coupled with decreases in our trade and other payables and contract liabilities.

Please refer to “— Year Ended December 31, 2017 Compared to Year Ended December 31, 2016”, “— Year Ended December 31, 2018 Compared to Year Ended December 31, 2017” and “— Six months ended June 30, 2019 compared to six months ended June 30, 2018” in this section for a discussion of the factors affecting our results of operations during the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We have historically funded our cash requirements principally from our business operations, bank borrowings and financing through issuance of convertible bonds and preferred shares.

Going forward, we believe that our working capital and other liquidity requirements will be satisfied by using a combination of cash generated from our operating activities and the [REDACTED] received from the [REDACTED]. We had cash and cash equivalents of RMB12.8 million, RMB21.3 million, RMB40.3 million and RMB54.2 million as of December 31, 2016, 2017 and 2018 and June 30, 2019, respectively. We generally deposit our excess cash in interest-bearing bank accounts and short-term principal-protected wealth management products issued by banks in China with terms not longer than one year.

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Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash flows from operating activities before movements in working capital .	(23,831)	34,201	81,122	32,718	71,991
Net cash (used in)/generated from operating activities	(16,874)	20,462	41,743	24,752	25,214
Net cash generated from/(used in) investing activities	8,772	(3,397)	(3,037)	(14,339)	(3,059)
Net cash used in financing activities . .	(7,302)	(8,599)	(19,547)	(11,683)	(8,318)
Net (decrease)/increase in cash and cash equivalents	(15,404)	8,428	19,159	(1,270)	13,837
Cash and cash equivalents at beginning of the year/period.	28,232	12,828	21,256	21,256	40,341
Exchange losses on cash and cash equivalents	—	—	(74)	(42)	(26)
Cash and cash equivalents at end of the year/period	12,828	21,256	40,341	19,944	54,152

Net Cash (used in)/generated from operating activities

Cash flow from operating activities reflects our loss or profit for the period before tax adjusted for non-cash items and changes in working capital. Our cash inflow from operating activities consists primarily of income generated from our provision of HR solutions through flexible staffing services, professional recruitment services and other HR services comprising BPO services, labor dispatch services, tailored corporate training and other miscellaneous services. Our cash outflows for operating activities is principally attributable to our operating expenses, which includes employee salaries, cash payments to our suppliers, and utilities and office expenses.

For the six months ended June 30, 2019, we had net cash generated from operating activities of RMB25.2 million, which was attributable to our loss before income tax of RMB222.6 million as adjusted by (i) non-cash and non-operating items of RMB294.6 million, which primarily comprised fair value losses on hybrid financial instruments of RMB277.8 million and depreciation of property, plant and equipment of RMB12.2 million; and (ii) net working capital outflow of RMB46.8 million which primarily comprised a decrease in trade and other payables of RMB37.1 million, an increase in prepayments, deposits and other receivables and other non-current assets of RMB4.4 million, and an increase in trade and notes receivables of RMB2.6 million.

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For the year ended December 31, 2018, we had net cash generated from operating activities of RMB41.7 million, which was attributable to our loss before income tax of RMB140.6 million, as adjusted by (i) non-cash and non-operating items of RMB221.7 million, which primarily comprised fair value losses on hybrid financial instruments of RMB196.5 million and depreciation of property, plant and equipment of RMB18.7 million; and (ii) net working capital outflow of RMB39.4 million which primarily comprised an increase in trade and notes receivables of RMB179.7 million which was partially offset by an increase in trade and other payables of RMB135.1 million, all of which were attributable to the significant increase in volume of HR services we provided during this year.

For the year ended December 31, 2017, we had net cash generated from operating activities of RMB20.5 million, which was attributable to our loss before income tax of RMB43.4 million, as adjusted by (i) non-cash and non-operating items of RMB77.6 million, which primarily comprised fair value losses on hybrid financial instruments of RMB53.9 million and depreciation of property, plant and equipment of RMB19.1 million; and (ii) net working capital outflow of RMB13.7 million which primarily comprised an increase in trade and notes receivables of RMB65.8 million and an increase in prepayments, deposits and other receivables of RMB1.1 million, which were partially offset by an increase in trade and other payables of RMB49.9 million.

For the year ended December 31, 2016, we had net cash used in operating activities of RMB16.9 million, which was attributable to our loss before income tax of RMB47.2 million, as adjusted by (i) non-cash and non-operating items of RMB23.4 million, which primarily comprised depreciation of property, plant and equipment of RMB17.2 million, interest expenses of RMB2.9 million and fair value losses on hybrid financial instruments of RMB1.9 million; and (ii) net working capital inflow of RMB7.0 million which primarily comprised an increase in contract liabilities of RMB14.4 million and an increase in trade and other payables of RMB5.8 million, which were partially offset by an increase in trade receivables of RMB16.5 million. This was mainly because we used cash in selling and marketing, and research and development activities for and after the revamp and integration of our operation systems and platform, but our revenue scale was still relatively small for the year ended December 31, 2016.

Net Cash used in Investing Activities

For the six months ended June 30, 2019, net cash used in investing activities was RMB3.1 million, which was mainly attributable to purchase of financial assets at fair value through profit or loss of RMB8.0 million and purchase of property, plant and equipment of RMB2.8 million, which were partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB8.0 million.

FINANCIAL INFORMATION

For the year ended December 31, 2018, net cash used in investing activities was RMB3.0 million, which was mainly attributable to purchase of property, plant and equipment of RMB3.3 million and purchase of financial assets at fair value through profit or loss of RMB74.7 million, which were partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB74.8 million. These financial assets referred to short-term principal-protected wealth management products where we chose terms shorter than one year.

For the year ended December 31, 2017, net cash used in investing activities was RMB3.4 million, which was mainly attributable to purchase of property, plant and equipment of RMB3.1 million and purchase of financial assets at fair value through profit or loss of RMB5.0 million, which were partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB5.0 million.

For the year ended December 31, 2016, net cash generated from investing activities was RMB8.8 million, which was mainly attributable to proceeds from disposal of financial assets at fair value through profit or loss of RMB21.0 million, which were partially offset by purchase of financial assets at fair value through profit or loss of RMB6.0 million and purchase of property, plant and equipment of RMB6.5 million.

Net Cash used in Financing Activities

For the six months ended June 30, 2019, net cash used in financing activities was RMB8.3 million, which primarily comprised repayments of borrowings of RMB52.2 million and payment of lease liabilities of RMB8.3 million, which were partially offset by proceeds from borrowings of RMB55.6 million.

For the year ended December 31, 2018, net cash used in financing activities was RMB19.5 million, which primarily comprised repayment of convertible bonds of RMB60.4 million, repayment of borrowings of RMB38.1 million and payment of lease liabilities of RMB18.7 million, which were partially offset by proceeds from issuance of preferred shares of RMB63.4 million and proceeds from borrowings of RMB44.0 million.

For the year ended December 31, 2017, net cash used in financing activities was RMB8.6 million, which primarily comprised repayment of borrowings of RMB66.3 million and payment of lease liabilities of RMB15.8 million, which were partially offset by proceeds from borrowings of RMB60.9 million and proceeds from issuance of convertible bonds of RMB15.0 million.

For the year ended December 31, 2016, net cash used in financing activities was RMB7.3 million, which primarily comprised payment of lease liabilities of RMB16.6 million and repayment of borrowings of RMB8.4 million, which were partially offset by proceeds from borrowings of RMB17.8 million.

Working capital

We intend to continue to finance our working capital with cash generated from our operating activities and the [REDACTED] received from the [REDACTED]. During the Track Record Period, our principal uses of cash were for operating activities. We had cash and cash equivalents of RMB12.8 million, RMB21.3 million, RMB40.3 million and RMB54.2 million as of December 31, 2016, 2017 and 2018 and June 30, 2019, respectively.

FINANCIAL INFORMATION

Our Directors are of the opinion that, taking into account the financial resources presently available to us, including internally generated funds, available banking facilities and the estimated net [REDACTED] from the [REDACTED], our Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document. We currently do not have plans for further material external debt financing.

Our Directors confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings, nor any breach of financial covenants during the Track Record Period.

INDEBTEDNESS

As of December 31, 2016, 2017 and 2018 and June 30, 2019, our borrowings amounted to RMB9.4 million, RMB4.1 million, RMB10.0 million and RMB13.4 million. All of these borrowings were repayable within one year. Other than RMB6.0 million of borrowings from individuals as of December 31, 2016, which was subsequently repaid in 2017, all of our borrowings as of December 31, 2016, 2017, 2018 were bank facilities which were unsecured and guaranteed by Mr. JG Zhang and certain subsidiaries of our Group, our Founders and certain subsidiaries of our Group, Mr. JG Zhang along with a certain subsidiary of our Group, respectively, with annual interest rates ranging from 5.26% to 5.57%. The guarantee from Mr. JG Zhang was released in February 2019. As such, our bank loans of RMB13.4 million as of June 30, 2019 were unsecured, guaranteed by certain subsidiaries of our Group, with annual interest rates of 5.57%.

Our bank facility is subject to the fulfilment of certain covenants, as are commonly found in lending arrangements with financial institutions. If we were to breach the covenants, the remaining unutilized amount may be reduced and the drawn down facilities and interest may become payable on demand.

As of September 30, 2019, we had nil bank borrowings. As of the Latest Practicable Date, we did not have any banking facilities.

As of December 31, 2016, 2017, 2018, June 30, 2019 and September 30, 2019, our lease liabilities in respect of our leased properties amounted to approximately RMB32.5 million, RMB20.6 million, RMB53.8 million, RMB75.7 million, and RMB[70.1] million, respectively.

As of December 31, 2016, 2017, 2018 and June 30, 2019, we had hybrid financial instruments of RMB125.4 million, RMB187.6 million, RMB402.2 million and RMB684.9 million, respectively. For further information regarding the hybrid financial instruments, please refer to Note 25 to the Accountant’s Report set out in Appendix I to this document. From December 31, 2018 to September 30, 2019, we did not issue or repurchase any hybrid financial instruments.

Except as disclosed above, as of September 30, 2019, our Directors confirm that our Group did not have any outstanding mortgages, charges, debentures, bank overdrafts, loans, debt securities, finance leases or hire-purchase commitments, liabilities under acceptances or guarantees.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As of December 31, 2016, 2017 and 2018, June 30, 2019 and September 30, 2019, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise expenditures for purchase of property, plant and equipment, which amounted to RMB6.5 million, RMB3.1 million, RMB3.3 million and RMB2.8 million for the years ended December 31, 2016, 2017, 2018 and the six months ended June 30, 2019, respectively. These mainly comprised additions of computer equipment leasehold improvement and furniture.

CONTRACTUAL OBLIGATIONS

Lease Commitments

During the Track Record Period, we leased IT equipment and other small items of office furniture. The total commitment amount was not material.

Capital Commitments

Our capital commitments during the Track Record Period were primarily related to the acquisition of intangible assets and property, plant and equipment. The table below sets forth capital commitments as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	June 30,
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Commitment for acquisition of:				
Property, plant and equipment .	446	161	352	343
Intangible assets	—	23	—	—

The capital commitments were for video conferencing and messaging systems purchased in 2016 and renovation of our offices throughout the Track Record Period.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of September 30, 2019, we had not entered into any material off-balance sheet commitments or arrangements.

FINANCIAL INFORMATION

RELATED-PARTY TRANSACTIONS

During the Track Record Period, other than the loan from Mr. JG Zhang and his spouse, details of which are set forth in the table below, there were no other significant transactions entered into between the Group and its related parties. In the opinion of our Directors, the related-party transactions were conducted on an arm’s length basis and carried out in the normal course of business.

	For the Year Ended December 31,			For the six months ended
	2016	2017	2018	June 30,
	RMB’000	RMB’000	RMB’000	2019
				RMB’000
Loan repayments to related parties				
- Mr. Zhang Jianguo	—	1,500	2,200	—
- Mr. Zhang Jianguo’s spouse	—	—	3,000	—
	<u>—</u>	<u>1,500</u>	<u>5,200</u>	<u>—</u>
Interest paid back to related parties				
- Mr. Zhang Jianguo	265	220	135	—
- Mr. Zhang Jianguo’s spouse	210	210	175	—
	<u>475</u>	<u>430</u>	<u>310</u>	<u>—</u>

As of December 31, 2018, all borrowings from related parties had been repaid. Please refer to Note 32 of the Accountant’s Report in Appendix I to this document for more information on our related-party transactions.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risk (such as foreign exchange risk), credit risk and liquidity risk.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our Group entities’ functional currency. The functional currency of the Company is USD whereas the functional currency of our subsidiaries operating in the PRC is RMB.

We operate mainly in the PRC with most transactions settled in RMB. Our management considers that our business is not exposed to any significant foreign exchange risk as we do not have any significant financial assets or liabilities that are denominated in currencies other than the respective functional currencies of our Group’s entities.

FINANCIAL INFORMATION

Cash flow and fair value interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates, as we have no significant interest-bearing assets except for cash and cash equivalents measured at amortized cost.

Our exposure to changes in interest rates is also attributable to our borrowings and lease liabilities. Borrowings and lease liabilities carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

At 31 December 2016, 2017 and 2018 and June 30, 2019, our borrowings and lease liabilities were all carried at fixed rates, which did not expose us to cash flow interest rate risk.

Credit Risk

Credit risk is managed on a group basis. Our credit risk arises from cash and cash equivalents as well as credit exposures to clients, including outstanding receivables.

As of December 31, 2016, 2017 and 2018 and June 30, 2019, we expected that there was no significant credit risk associated with cash and cash equivalents since most of them were deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

To manage risk arising from trade and bill receivables, we have policies in place to ensure that credit terms are made to clients with an appropriate credit history and the management performs ongoing credit evaluations of its clients. The credit period granted to clients is typically 10 to 70 days and the credit quality of these clients is assessed, which takes into account their financial position, past experience and other factors.

Further quantitative disclosures in respect of our exposure to credit risk arising from trade and other receivables are set out in Note 3.1(b)(ii) to the Accountant’s Report included in Appendix I to this document.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing to meet our daily operation working capital.

For the analysis of our Group’s financial liabilities by relevant maturity grouping at each balance sheet date, please see Note 3.1(c) to the Accountant’s Report included in Appendix I to this document.

FINANCIAL INFORMATION

DIVIDENDS

Under the Articles of Association, our Company in general meeting may declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. As advised by our Cayman Islands legal advisor, a position of accumulated losses incurred from prior financial years does not necessarily restrict us from declaring and paying dividends to our Shareholders. Under Cayman Islands law, our Company may pay a dividend out of either our profits (whether retained earnings or profits from the current financial year) or share premium (which is the excess of the issue price of our Shares over their aggregate par value), provided that this would not result in our Company being unable to pay our debts as they fall due in the ordinary course of business. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account the dividend policy we intend to adopt, which includes factors such as our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors our Board deems to be appropriate. We did not declare any dividend for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 and we currently do not have any predetermined payout ratio.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require a foreign-invested enterprise, to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend.

DISTRIBUTABLE RESERVES

As of June 30, 2019, we did not have any distributable reserves.

FINANCIAL INFORMATION

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED], the total estimated [REDACTED]-related expenses payable by us in relation to the [REDACTED] is approximately RMB[REDACTED] million. We incurred approximately RMB[REDACTED] million of [REDACTED] expenses during the Track Record Period, of which RMB[REDACTED] million was recorded as prepayments and RMB[REDACTED] million was charged as expenses to our consolidated income statements. We estimate that we will incur further [REDACTED] expenses of RMB[REDACTED] million, of which RMB[REDACTED] million will be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending December 31, 2019. The remaining amount of approximately RMB[REDACTED] million, which includes [REDACTED] commission, will be accounted for as a deduction from equity upon completion of the [REDACTED]. These [REDACTED] expenses mainly comprise professional fees paid and payable to the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], legal advisors and the reporting accountant for their services rendered in relation to the [REDACTED] and the [REDACTED].

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [REDACTED] and the conversion of Preferred Shares on the consolidated net tangible assets of the Group attributable to equity holders of the Company as of June 30, 2019 as if the [REDACTED] and the conversion of Preferred Shares had taken place on June 30, 2019.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] and the conversion of Preferred Shares been completed as of June 30, 2019 or any future date.

	Audited Consolidated Net Tangible Liabilities of the Group Attributable to Equity Holders of the Company as at June 30, 2019	Pro forma adjustments		Unaudited Pro Forma Adjusted Net Tangible Assets of the Group Attributable to Equity Holders of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Share	
		Estimated [REDACTED] from the [REDACTED]	Estimated Impact Related to the Conversion of Preferred Shares upon [REDACTED]		(Note 4)	(Note 5)
	(Note 1)	(Note 2)	(Note 3)		(Note 4)	(Note 5)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an [REDACTED] of HK\$[REDACTED] per Share	(532,957)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	(532,957)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible liabilities attributable to equity holders of the Company as at June 30, 2019 is extracted from the historical financial information contained in the Accountant's Report set forth in Appendix I to this document, which is based on the audited consolidated net liabilities of the Group attributable to equity holders of the Company as at June 30, 2019 of approximately RMB532,064,000 with an adjustment for the intangible assets attributable to equity holders of the Company as at June 30, 2019 of approximately RMB893,000.
2. The estimated net [REDACTED] from the [REDACTED] are based on [REDACTED] Shares and the indicative [REDACTED] of HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, being the low end to high end of the indicative [REDACTED] range respectively, after deduction of the [REDACTED] fees and other related expenses (excluding [REDACTED] expenses of approximately RMB[REDACTED] which has been accounted for in the consolidated income statements up to June 30, 2019), and does not take account of any Shares which may be issued upon the exercise of the [REDACTED], or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Schemes.
3. Upon the completion of the [REDACTED], all the Series A, B and D Preferred Shares will be automatically converted into our fully paid and non-assessable ordinary shares on an one-to-one basis. These Preferred Shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company will increase by RMB[REDACTED], being the carrying amounts of the Preferred Shares as of June 30, 2019.
4. The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that a total of [REDACTED] Shares were in issue (including Shares in issue as of the date of this document and those Shares to be issued pursuant to the [REDACTED] and the completion of the conversion of Series A, B and D Preferred Shares into [54,579,479] fully paid and non-assessable ordinary shares in a conversion ratio of 1:1) assuming that the [REDACTED] and the conversion of Preferred Shares had been completed on June 30, 2019 but taking no account of any shares which may be issued upon the exercise of the [REDACTED], or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Schemes.
5. For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.85458 to HKD1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
6. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2019.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2019, being the end date of the periods reported on in the Accountant's Report included in Appendix I to this document, and there is no event since June 30, 2019 that would materially affect the information as set out in the Accountant's Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as at June 30, 2019, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FINANCIAL INFORMATION

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model has remained unchanged and our revenue and cost structure has remained stable. We continued focusing on providing our HR solutions to clients, and have maintained steady business growth. Our unaudited revenue for the nine months ended September 30, 2019 was higher than for the same period in 2018, primarily due to the increase in our number of contract employees when comparing those periods. Based on our preliminary review of the Group’s operating data, with a specific focus on the Group’s key business segments:

- ***Flexible staffing*** - we had approximately 23,200 contract employees deployed to our flexible staffing services clients as of September 30, 2019.
- ***Professional recruitment*** - we had made approximately 31,300 placements for our recruitment services clients for the nine months ended September 30, 2019.
- ***BPO*** - we had approximately 630 contract employees deployed to various BPO assignments as of September 30, 2019.

There has been no material adverse change in our market position or prospects.

Subsequent to the Track Record Period and prior to the conversion of the Preferred Shares upon the [REDACTED], we expect that the fair value of the hybrid financial instruments will further increase and to record fair value losses during the same period. In addition, we expect to incur additional [REDACTED]-related expenses in 2019. These two matters will have a negative impact on our financial performance in 2019.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See the section headed “Business — Our Strategies” for detailed description of our future plans.

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), we estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] million (equivalent to RMB[REDACTED] million) from the [REDACTED] after deducting the [REDACTED] commissions and other estimated expenses in connection with the [REDACTED] and assuming that the [REDACTED] is not exercised. We intend to use the net [REDACTED] from the [REDACTED] as follows:

1. Approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used primarily to expand our geographic coverage to better support our clients and new opportunities.

Business strategies and considerations

- Enhance our service quality provided to clients, and develop new client relationship, in respect of our existing first-level and second-level service locations
 - Our current market share in flexible staffing services market in China was 1.5% in terms of the number of flexible staff hired by the end of 2018, according to CIC, and there are significant market demands for us to grow and expand our service coverage.
 - Improving the service quality provided to our existing clients and developing new client relationship in our existing first-level and second-level service locations will provide us with opportunity to grow our market share by capturing the increasing staffing demands associated with significant economic growth in these cities.
 - According to CIC and the National Bureau of Statistics, the cities we have selected are all provincial capitals or municipalities, and each is ranked among the top 30 largest cities in terms of population and top 20 cities in terms of GDP in 2018 in China. Also, it is expected that majority of the above cities will grow in terms of GDP at a rate higher than the national level in the next few years, according to CIC.
- Expand to other provincial capitals or top-tier prefecture-level cities where we have no or limited footprint

FUTURE PLANS AND USE OF [REDACTED]

- To capture more market share from the HR solutions services market in China, we plan to expand our services to other provincial capitals or top-tier prefecture-level cities with sizeable populations (including Zhengzhou, Changsha, Jinan, Dalian, Kunming, Guiyang, Xiamen, Nanning, Hefei, Suzhou and Ningbo) where we currently have no or limited footprint.
- The 11 cities where we plan to expand are all provincial capitals or top-tier prefecture-level cities, and were ranked among top-20% band of cities in China in terms of GDP in 2018, according to CIC, with sizeable population (whereby the majority of these cities are ranked among the top 70 largest cities in terms of population in 2018) that have high number of jobseekers. For more information about the competitive landscape of the 11 cities, please see the section headed “Industry Overview — Overview of the Flexible Staffing Services Market in China”.
- Being currently the largest flexible staffing service provider in China, we benefited from the economies of scale, nationwide service network, as well as well-developed technology infrastructure system of a high standard and a fully integrated HR ecosystem that allows us to quickly expand to new geographic locations by leveraging our experience from the existing operation, all of which cannot be easily replicated by competitors in the market. We expect to leverage on our past experience in setting up new operations when expanding to these new cities to quickly capture demands and gain market shares from our existing and potential clients.
- Hire qualified employees and establish new branches or representative offices in third and fourth-tier cities as support network for our key clients
 - As a one-stop HR service provider, we strive to support our clients wherever their operations take them.
 - We currently cover these clients’ service requests via our strong domestic network with more than 20 offices. However, as we are servicing clients’ needs in these third and fourth-tier cities from other locations where we have offices, our services could be delayed and the quality of service could be impeded. To improve timeliness of service delivery and to ensure consistency in service quality similar to that of our other established offices, we intend to hire more qualified employees and also plan to establish at least 20 new branches or representative offices in third or fourth-tier cities (such as Quzhou, Shangrao and Foshan) to synchronize with our clients’ expansion of business operations into these cities.

FUTURE PLANS AND USE OF [REDACTED]

Implementation plan

For illustration purpose, for the period from [REDACTED] to December 31, 2022, our net [REDACTED] earmarked for this category will be used as follows for each business strategy:

- Enhance our service quality provided to clients, and develop new client relationship, in respect of our existing first-level and second-level service locations

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> Enhance our service quality and develop new client relationship in first and second-level service locations <u>Action item</u> Add task force with: - approximately 160 to 170 project managers to supervise and execute new projects - approximately 55 to 65 sales personnel	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to 2020: - 80 to 85 project managers - 30 to 35 sales personnel From 2021 to 2022: - 80 to 85 project managers - 25 to 30 sales personnel
<u>Target</u> Strengthen our internal employees' understanding of industries and clientele we serve in first and second-level service locations <u>Action item</u> Providing training for our employees	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	Starting from the first quarter after [REDACTED] to the end of 2022

- Expand to other provincial capitals or top-tier prefecture-level cities where we have no or limited footprint

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> Expand into provincial capitals or top-tier prefecture-level cities where we currently have no or limited operation <u>Action item</u> Add task force with: - approximately 190 to 200 project managers to supervise and execute new projects - approximately 60 to 70 sales personnel to generate new business opportunities	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to 2020: - 45 to 50 project managers - 15 to 20 sales personnel From 2021 to 2022: - 145 to 150 project managers - 45 to 50 sales personnel

FUTURE PLANS AND USE OF [REDACTED]

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> House our new task force and business expansion to other provincial capitals or top-tier prefecture-level cities where we currently have no or limited operation	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to end of 2022
<u>Action item</u> Set up at least 10 new offices in provincial capitals or top-tier prefectural-level cities (including rental and cost of renovation of new offices) where we currently have no or limited operation to serve as interview locations and offices of our local operations		

- Establish new branches or representative offices in third and fourth-tier cities as support network for our key clients

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> Create the support network for our key clients in third and fourth-tier cities to supervise projects and to manage the HR administrative needs of our flexible staffing and internal employees in third or fourth-tier cities	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to 2020: - 185 to 195 project managers - 15 new locations From 2021 to 2022: - 65 project managers - 5 new locations
<u>Action item</u> Recruit approximately 250 to 260 project managers and set up no less than 20 newly established branch or representative offices		
<u>Target</u> Ensure service quality at these newly established locations in third or fourth-tier cities similar to that of our other established locations	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	Quarterly starting from 2nd quarter of 2020 to end of June 2022
<u>Action item</u> Providing training to new employees at newly established locations in third or fourth-tier cities		

FUTURE PLANS AND USE OF [REDACTED]

2. Approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used primarily to expand our industry coverage, mainly through acquisition and also through organic growth in the next three years, to capture demand for flexible staffing services we have observed in certain underserved and expanding industries, and specifically, to target our services to more financial institution, IT industry and new retail clientele.

Business strategies and considerations

- Expand our industry coverage to roles at financial institutions (including bank teller and bank customer service specialist) through acquisition because of higher entry barriers resulting from industry-specific knowledge requirements
 - According to CIC, China’s finance industry, in terms of GDP, is expected to increase from RMB6,910.0 billion in 2018 to RMB11,461.5 billion in 2023, representing a CAGR of 10.7%. The expected expansions in China’s finance industry will likely increase company’s staffing needs and avail new business opportunities to us.
 - We noticed that our existing customers in the finance industry have a high demand to outsource cost-heavy back office functions. Since we currently do not have proven track record for specialist roles at financial institutions, and for some of these positions, such as customer data management or credit card customer services, service providers may be required to be on a pre-approved list maintained by respective financial institutions, as well as being certified by several quality assurance standards, including, ISO9001:200 for service quality, ISO27001:2005 for data security, OHSAS18001 for occupational health and safety. Thus, potential customers may be unwilling to consider outsourcing these roles to us before we go through these processes which often take a long time to complete with high costs.
 - There were no less than 50 HR services companies with over 1,000 flexible staffing employees deployed to financial institutions as of 2018, which could be our acquisition target. The result of such acquisition will give us an established team of industry specialists equipped with industry-specific knowledge with track record in servicing the financial institutions, which will further facilitate expansion of our market share in China’s HR solution services market.
- Expand our industry coverage to roles (including software R&D personnel) in IT industry through acquisition because of higher entry barriers resulting from industry-specific knowledge requirements
 - According to CIC, China’s IT industry, in terms of GDP, is expected to increase from RMB3,243.1 billion in 2018 to RMB8,807.5 billion in 2023, representing a CAGR of 22.1%. The expected expansions in China’s IT industry will likely increase company’s staffing needs and avail new business opportunities to us.

FUTURE PLANS AND USE OF [REDACTED]

- We have noticed from our existing customers that there is a growing trend for firms to utilize flexible staffing for their software R&D initiatives and their need for technological advancement continue to grow rapidly, and we aim to quickly capitalize on the growing market by acquiring established companies. Similar to financial institutions, some of these job positions with higher margin in the IT industry also present a challenge for new market player due to number of certifications and pre-approvals that are required. For instance, in addition to the quality assurance standards required by financial institutions, for certain job positions, such as software developer, clients in the IT industry often require their service providers to hold CMMI3 certificate, which certifies the service providers’ capability in software design, development, as well as project and risk management. Also, for these mid to high-end positions in the IT industry, client usually asks for candidates with ability to write system languages such as C/ C++, VC, Java, with past work experiences in similar industry. It will be difficult to quickly and organically expand service offerings to cover these job positions, due to the time and costs to obtain several of these certificates mentioned above, as well as the time needed to establish track record in serving these job positions.
- There were no less than 50 HR services companies with over 500 flexible staffing employees deployed to IT industry as of the end of 2018, which could be our acquisition target. The result of such acquisition will give us an established team of industry specialists equipped with industry-specific knowledge with track record in servicing the IT industry, which will further expand our market share in China’s HR solution services market.
- Expand our services to underserved and growing clientele in new retail industry
 - China’s new retail industry (retail companies which merges online, offline and logistics in its business model), in terms of transaction value, is expected to grow from RMB599.9 billion in 2018 to RMB2,061.3 billion in 2023, representing a CAGR of 28.0%.
 - We intend to leverage our existing service offerings by developing relationships with new retail industry clients, where the focus is on integrated online presence, offline retail experience and logistics network. We plan to set up a team and management system appropriate for this industry in order to fulfil the flexible staffing needs of such clients derived from their extensive operation network.

FUTURE PLANS AND USE OF [REDACTED]

Implementation plan

For illustration purpose, for the period from [REDACTED] to December 31, 2022, our net [REDACTED] earmarked for this category will be used as follows:

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> Expand our industry coverage to specialist roles at financial institutions <u>Action item</u> Acquire a HR services company with a good compliance history, net profit of more than RMB5 million and over 1,000 flexible staffing employees deployed to financial institutions	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	Closing before last quarter of 2020
<u>Target</u> Expand our industry coverage to specialist roles in IT industry <u>Action item</u> Acquire a HR services company with a good compliance history, net profit of more than RMB7 million and over 500 flexible staffing employees deployed to IT industry companies	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	Closing before last quarter of 2021
<u>Target</u> Strengthen our offerings to new retail clients <u>Action item</u> Add additional task force with approximately 40 to 50 project managers to supervise and execute new projects	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to 2020: - 20 to 25 project managers From 2021 to 2022: - 20 to 25 project managers

As of the Latest Practicable Date, we had not identified any potential acquisition target.

- Approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to expand our existing BPO and headhunting service offerings in the next three years in order to capture the expected growth potential in both service sectors.

Business strategies and considerations

- Expand our BPO services to capture more market share from the fragmented but growing market
 - According to CIC, the total market size of China’s BPO service provided by HR services companies, as measured by revenue, is projected to grow at a CAGR of 20.6% from approximately RMB26.0 billion in 2018 to approximately RMB66.4 billion by 2023.

FUTURE PLANS AND USE OF [REDACTED]

- The market is fragmented with over 10,000 participants as of 2018. This segment contributed less than 2% of our total revenue in 2018, but has significant growth potential, as we only launched our BPO service in the last quarter of 2017, and had already generated revenue of approximately RMB23.0 million for 2018 and RMB17.2 million for the six months ended June 30, 2019. In addition, according to CIC, over 80% of BPO service providers’ revenue as of 2018 was below RMB5 million. Therefore, relying on a high degree of client stickiness, as well as economies of scale, we expect to capture more market share in BPO industry mainly based on cross-selling opportunities by our strong relationship with our existing flexible staffing and professional recruitment clients.
- To improve the our ability to better serve our BPO clients, service infrastructure needs to be enhanced and expanded. For example, in respect of the hardware, we are planning to set up internet data center to house computer systems and associated components, such as additional data storage and backup systems, and adding more uninterruptible power supply equipment to ensure continuous operations. At the same time, we are in the process of obtaining both ISO9001:2015 and ISO 27001:2013 certifications for the software used in our BPO service. Both of these upgrades to our service infrastructure will enhance our BPO service capabilities to both existing and potential clients in large scale projects.
- With improved branding and better project execution efficiency, we aim to gradually move into higher margin BPO projects and capture more market share from the growing market.
- Expand our headhunting services to provide a comprehensive one-stop HR solutions to our clients
 - The total market size of China’s headhunting service, as measured by revenue, is projected to grow at a CAGR of 18.8% from approximately RMB100.7 billion in 2018 to approximately RMB237.9 billion by 2023, according to CIC.
 - The market is fragmented with over 17,000 headhunting firms as of 2018. According to CIC, over 80% of headhunting service providers’ revenue as of 2018 was below RMB10 million. Therefore, relying on a high degree of client stickiness, as well as economies of scale, we expect to capture more market share in headhunting service industry mainly based on cross-selling opportunities by our strong relationship with our existing flexible staffing and professional recruitment clients. As part of our professional recruitment services, during the Track Record Period, occasionally we offered headhunting service for senior and executive level positions as part of our recruitment offerings.

FUTURE PLANS AND USE OF [REDACTED]

- According to CIC, premium talent services (mainly include headhunting services) accounted for more than 60.0% of the total budget of middle and large enterprises for talent acquisition services. Driven by an increasing demand for talents, the average utilized budget of middle and large enterprises for talent acquisition services is expected to maintain a stable growth trend in the future, reaching RMB38.7 thousand in 2020 and increasing by 22.9% during this period.
- As our clients businesses are usually sizable and diverse, our ability to leverage our headhunting service to match their increasing talent acquisition budgets to headhunting/recruitment of senior/executive positions will likely allow us to capture the potentially significant growth as a sub-segment of our recruitment services.

Implementation plan

For illustration purpose, for the period from the Latest Practicable Date to December 31, 2022, our net [REDACTED] earmarked for this category will be used as follows:

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> Capture more market share for our BPO services	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to 2020: - 10 to 15 project managers From 2021 to 2022: - 10 to 15 project managers
<u>Action item</u> Expand our existing BPO service capabilities by: <ul style="list-style-type: none"> - expanding service infrastructure and recruiting additional contract employees to reach our maximum capacity of 6,000 contract employees - adding approximately 20 to 30 project managers overseeing the operation in various BPO service centers, including Liaoning and Shangrao service centers 		
<u>Target</u> Expand our headhunting services		
<u>Action items</u> <ul style="list-style-type: none"> - Hire approximately 5 to 10 project managers dedicated to developing our headhunting business line - Hire approximately 75 to 85 experienced headhunters with at least three years of experience in the market of recruiting specialists and senior-level professionals 	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From [REDACTED] to 2020: - 2 to 4 project managers From 2021 to 2022: - 3 to 6 project managers From [REDACTED] to 2020: - 50 headhunters For 2021: - 10 to 20 headhunters For 2022: - 15 headhunters

4. Approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to further enhance our integrated HR ecosystem and build up our capabilities in AI and data mining technology.

FUTURE PLANS AND USE OF [REDACTED]

Business strategies and considerations

- Strengthen our hiring efficiency and enhance our recommendation and matching algorithms to meet the evolving demands of our users
 - Between 2014 and 2018, the size of the market for HR AI and SaaS in terms of sales revenue in China increased from RMB3,330.0 million to RMB7,351.8 million, representing a CAGR of 21.9%. The market for HR AI and SaaS is projected to reach approximately RMB18,437.3 million by 2023, registering a CAGR of 20.2% during the forecast period.
 - Through AI and data mining enhancements, we are looking to add to our integrated HR ecosystem the ability to mine and accumulate large amount of multidimensional data points for the purpose of predicting job trends in a given market, career progression of a potential candidate and even employees who are at risk of resignation with the use of advanced AI technology that is capable of self-learning and equipped with analytical skills. Utilization of AI technology can also add to the efficiency and effectiveness of our recruitment process, for example, through AI technology, an automatic system can screen potential job candidates, send out interview invitations and interview candidates based on preset criteria, as well as image recognition, voice recognition and other behavior analytical tools to grade candidates' fitness and competencies for a job opening.
 - To minimize risks associated with upfront investments and to shorten the timeframe in developing R&D team focusing on AI and data mining, we plan to enhance our capability through acquisition. There were no less than 500 HR AI and SaaS companies as of 2018, which could be our acquisition target.
- Enhance our integrated HR ecosystem to meet the growth in our existing business lines, as well as our planned expansion
 - Develop and introduce new functionalities, features and value-added services to our existing platform in addition to the regular upgrade and maintenance of our platforms.
 - We plan to launch phase one of the Headhunting Alliance Platform in the third quarter of 2020, and Flexible Staff Learning Platform in the third quarter of 2021. Both systems are still in planning stage, and form part of our ongoing strategies to improve the user experience of our integrated HR ecosystem.

FUTURE PLANS AND USE OF [REDACTED]

- For Headhunting Alliance Platform, we are expecting to work with headhunting firms which cover various levels of positions, with primary focus on high-end/senior level headhunting. The ideal partners for us would have less than 20 headhunters based in first or second-tier cities, who are able to cover regional-level job openings. We are designing this platform to cover several core steps in professional recruitment, including, online job posting and assignment between us and our partner headhunting firms in order to quickly respond to job openings and fully fulfil client requests in a timely manner, online candidate recommendation by our partner headhunting firms in order to shorten recruitment turnaround time and expand our candidate pool, and online and centralized tracking of our collaboration and cooperation with partner firms by recording data such as the number of candidates successfully placed based on the recommendation from our partners and the associated referral fees paid by us. The new platform is expected to provide a centralized system to track our collaboration with other headhunting firms by reference to key performance indicators such as project reaction time, geographic coverage, quality of candidates and placement success rate, and in turn allow us to assess the level of cooperation with other professional recruitment service providers.

- For Flexible Staff Learning Platform, we are expecting to provide online knowledge training through this newly designed platform based on the needs or requests of our contract employees for career development. These internal training and career development functions are expected to contribute to the well-being and overall satisfaction of our contract employees which in turn will lower the turnover rate of contract employees and increase stickiness to our platform. We aim to design the courses based on survey with our assigned onsite client teams. This online learning platform is likely to provide individual contract employees the opportunity to develop his or her career by attending tailored training courses designed to enhance work-based skill set, and at the same time, improve the quality of service we provide to our clients.

FUTURE PLANS AND USE OF [REDACTED]

Implementation plan

For illustration purpose, for the period from [REDACTED] to December 31, 2024, our net [REDACTED] earmarked for this category will be used as follows:

Implementation plan	Amount to be applied (approximately)	Expected timeframe
<u>Target</u> Develop our AI and data mining capability for hiring efficiency and enhanced recommendation and matching algorithm	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	Closing before last quarter of 2021
<u>Action item</u> Expand our R&D team by acquiring an IT company with a focus on AI and data mining for HR services which has more than 150 engineers specialized in HR application		
<u>Target</u> Develop and introduce new functionalities, features and value-added services while enhance our integrated HR ecosystem by updating our existing systems and platforms	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	Starting from [REDACTED] and complete by 2024 From [REDACTED] to 2020: 25 to 30 technicians and engineers From 2021 to 2024: 10 to 15 technicians and engineers
<u>Action items</u> - Hire approximately 15 to 20 technicians and engineers to develop a Headhunting Alliance (獵頭聯盟) platform which is expected to link and create synergies among different headhunting firms for job advertisement and joint marketing efforts - Hire approximately 15 to 20 technicians and engineers to develop Flexible Staff Learning Platform (靈活用工員工學習平台) which enables continued learning and development of flexible staffing employees' career and increase their sense of belonging - Hire approximately 5 technicians and engineers to maintain and upgrade our existing systems and platforms		

- Approximately [REDACTED]% of our total estimated net [REDACTED], or HK[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to further promote our brand and launch marketing and promotion activities.

Business strategies and considerations

- Enhance brand awareness among potential job candidates to improve number of quality job candidates we attract to our recruitment events
- Enhance brand awareness among potential clients to improve the positive brand recognition of our services among industry leading corporations

FUTURE PLANS AND USE OF [REDACTED]

Implementation plan

For illustration purpose, for the period from [REDACTED] to December 31, 2022, our net [REDACTED] earmarked for this category will be used as follows:

<u>Implementation plan</u>	<u>Amount to be applied (approximately)</u>	<u>Expected timeframe</u>
<u>Target</u> Enhance brand awareness among potential job candidates	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From first quarter of 2020 to [2022]
<u>Action items</u> - collaborate with other well-known internet platforms to increase joint promotion / marketing opportunities - launch marketing activities relating to new retail industry, headhunting, senior level recruitment and IT flexible staffing services - host large offline recruitment events for senior/executive level job positions - increase spending on various forms of advertisements, including printed advertisements which allow us to attract new registered individual users to our platform and advertise more job openings through Xiang Recruitment Platform to attract more online traffic		
<u>Target</u> Draw attention from potential clients	[REDACTED]%, or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million)	From March 2020 to 2022
<u>Action items</u> - Host large scale HR workshops or seminars in collaboration with reputable media in various cities across China - Participate in HR industry conferences - Continue to publish articles and books on flexible staffing and professional recruitment services industry		

FUTURE PLANS AND USE OF [REDACTED]

6. Approximately [REDACTED]% of our total estimated net [REDACTED], or HK[REDACTED] million (equivalent to RMB[REDACTED] million), will be used to support our global expansion strategy in the next [four] years.

Business Strategies and considerations

- We aim to replicate our success in quickly meeting various staffing demands of our Chinese clients on a global level, which may align with China’s one belt one road initiative where significant staffing demands under a tight time schedule are expected for large-scale projects as Chinese companies leverage on the government initiative to grow and expand into new markets.
- As of the Latest Practicable Date, we had entered into framework agreements with two of our existing clients to provide recruitment services and BPO services in India. Under recruitment services, we will search and select suitable candidates who will be employed by our clients and we will be paid a percentage of the candidate’s annual salary when he or she commences work. For BPO services, we arrange for contract employees hired by a third-party to perform information verification functions that were outsourced to us, and largely similar to our BPO services provided in China, our service fee is charged on a project basis calculated based on the required number of employees. We do so with the support from other HR services providers that have operations in India to source and recommend candidates to us based on requirements we provide, and in the case of BPO services, the HR services provider in India also provides office sites and is responsible for maintaining sufficient number of contract employees on its own payroll to perform the business functions outsourced to us by our client.
- We have discussed with certain existing clients which have already expanded or have plans to expand into South East Asia markets in the next three years, and we may consider expanding our services to support them in these developing countries, in order to capture the growth opportunities associated with the large populations and demand for quality workforce, as many of these countries are part of China’s one belt one road initiative given its geographic proximity to China’s southern provinces and their growing markets. As of the Latest Practicable Date, we had no concrete plan to expand our operation into any of the South East Asian countries apart from India.
- We currently do not have experience and expertise in these new markets outside of China, and we will carry out feasibility studies before entering into a new market. For instance, the Company has carried out feasibility study on India’s HR services market and noted the fast market growth due to demand for talents under the rapid expansion of Indian economy, and as pointed out by CIC, China has emerged as one of the fastest growing sources of foreign direct investment into India. Many Chinese enterprises have entered the India market, which will bring significant business opportunity for Chinese HR services providers. We plan to set up representative or branch offices, as well as enter into service contracts with local HR service providers to support the expansion of our key clients.

FUTURE PLANS AND USE OF [REDACTED]

- Given our global expansion strategy is to expand alongside existing clients, we adopt service agreements which are largely identical to the ones we used in China. For the professional recruitment services which we currently provide to our existing client in India, the major terms of such framework agreement mainly comprise the type of position our client intended to fill, our obligation to recommend suitable candidate within the agreed upon period, service fee based on a pre-agreed percentage of the annual salary of the candidate, 30 days settlement period for invoice, as well as a guarantee period, during which we undertake to find suitable replacement at no extra cost to our client, and in case no suitable replacement can be found, we will be obligated to refund the service fee partially, subject to the length of service such candidate already rendered to our client. For BPO service we currently offer to our existing client in India, the major terms of such framework agreement mainly comprise a descriptive scope of work, our obligation to maintain sufficient number of contract employees to perform the functions outsourced to us, our obligation to maintain a physical location with required equipment for the contract employees to carry out the outsourced functions, service fee on a project basis calculated based on number of contract employees needed to complete the functions, and monthly payment interval. For discussion on our professional recruitment service contract and BPO service contract with our clients and arrangement with our service provider, please refer to the sections headed “Business — Our Business and Operations” and “Business — Our Service Providers and Suppliers” in this document; and
7. Approximately [REDACTED]% of our total estimated net [REDACTED], or HK\$[REDACTED] million (equivalent to RMB[REDACTED] million), will be used for working capital and general corporate purposes.

In the event that the [REDACTED] is fixed below or above the mid-point of the indicative [REDACTED] range, the [REDACTED] allocated to the above purposes will be adjusted on a pro rata basis.

In the event that the [REDACTED] is set at HK\$[REDACTED] per Share (being the bottom end of the indicative [REDACTED] range), the estimated net [REDACTED] we will receive will be reduced by approximately HK\$[REDACTED] million (assuming that the [REDACTED] is not exercised). In the event that the [REDACTED] is set at HK\$[REDACTED] per Share (being the top end of the indicative [REDACTED] range), the estimated net [REDACTED] we will receive will be increased by approximately HK\$[REDACTED] million (assuming that the [REDACTED] is not exercised). In such event, we will increase or decrease the allocation of the [REDACTED] to the above purposes on a pro-rata basis and we will consider internal resources or external financing for the relevant purposes in the case of decrease of [REDACTED] allocated.

To the extent that the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to apply the [REDACTED] to short-term demand deposits or money market instruments.

[REDACTED]

[REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages I-4 to I-81, received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[Draft]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF RENRUI HUMAN RESOURCES TECHNOLOGY HOLDINGS LIMITED AND BNP PARIBAS SECURITIES (ASIA) LIMITED

Introduction

We report on the historical financial information of Renrui Human Resources Technology Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-81, which comprises consolidated balance sheets as at 31 December 2016, 2017 and 2018 and 30 June 2019, balance sheets of the Company as at 31 December 2016, 2017 and 2018 and 30 June 2019, the consolidated income statements, the consolidated statements of comprehensive (loss)/income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-81 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our 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 (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the consolidated financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated income statements, the consolidated statements of comprehensive (loss)/income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 30 June 2018 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in

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ACCOUNTANT’S REPORT

accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 29 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong, [REDACTED]

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ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

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ACCOUNTANT’S REPORT

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
	Note	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	5	376,288	776,247	1,615,891	659,026	1,077,361
Cost of revenue	6	(335,221)	(688,499)	(1,460,935)	(601,011)	(961,435)
Gross profit		41,067	87,748	154,956	58,015	115,926
Selling and marketing expenses	6	(33,942)	(33,476)	(42,394)	(16,424)	(22,989)
Research and development expenses	6	(16,599)	(13,807)	(13,088)	(6,501)	(7,126)
Administrative expenses	6	(32,827)	(32,949)	(48,095)	(17,066)	(33,060)
Other income	9	2,016	6,578	9,409	5,529	5,367
Other (losses)/gains, net	10	(1,114)	1,404	(268)	(165)	181
Net impairment losses on financial assets	3.1(b)	(1,010)	(2,141)	(2,993)	(1,768)	(455)
Operating (loss)/profit		(42,409)	13,357	57,527	21,620	57,844
Finance income	11	83	45	233	163	70
Finance costs	11	(2,947)	(2,960)	(1,781)	(1,002)	(2,746)
Fair value losses on hybrid financial instruments	25	(1,922)	(53,875)	(196,542)	(529)	(277,804)
(Loss)/profit before income tax		(47,195)	(43,433)	(140,563)	20,252	(222,636)
Income tax credit/(expense)	13	11,775	(572)	3,628	895	(6,566)
(Loss)/profit for the year/period attributable to equity holders of the Company		(35,420)	(44,005)	(136,935)	21,147	(229,202)
(Loss)/earnings per share (expressed in RMB per share)						
- Basic (loss)/earnings per share	14	(0.61)	(0.76)	(2.36)	0.36	(3.95)
- Diluted (loss)/earnings per share	14	(0.61)	(0.76)	(2.36)	0.19	(3.95)

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
(Loss)/profit for the year/period . .	(35,420)	(44,005)	(136,935)	21,147	(229,202)
Other comprehensive (loss)/income					
<i>Items that may be not reclassified subsequently to profit or loss:</i>					
Currency translation differences	<u>(5,054)</u>	<u>5,999</u>	<u>(12,858)</u>	<u>(1,442)</u>	<u>(5,123)</u>
Total comprehensive (loss)/income for the year/period attributable to equity holders of the Company	<u>(40,474)</u>	<u>(38,006)</u>	<u>(149,793)</u>	<u>19,705</u>	<u>(234,325)</u>

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ACCOUNTANT’S REPORT

CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 30 June
	Note	2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment . . .	16	40,344	27,419	62,069	80,717
Intangible assets	17	311	913	603	893
Other non-current assets	18	2,389	3,228	4,641	5,567
Deferred income tax assets	19	23,035	22,463	26,091	22,206
Total non-current assets		66,079	54,023	93,404	109,383
Current assets					
Trade and notes receivables	21	91,078	154,695	331,444	333,902
Prepayments, deposits and other receivables	20	2,390	2,697	7,990	14,313
Amount due from a related party . .	32	18	18	18	—
Cash and cash equivalents	22	12,828	21,256	40,341	54,152
Total current assets		106,314	178,666	379,793	402,367
Total assets		172,393	232,689	473,197	511,750
DEFICIT					
Share capital	23	18	18	18	18
Other reserves	24	(1,830)	4,382	(6,933)	(10,383)
Accumulated losses		(111,557)	(155,562)	(292,497)	(521,699)
Total deficit		(113,369)	(151,162)	(299,412)	(532,064)
LIABILITIES					
Non-current liabilities					
Hybrid financial instruments	25	125,430	187,567	402,198	684,913
Lease liabilities	27	20,511	7,491	41,592	57,871
Total non-current liabilities		145,941	195,058	443,790	742,784
Current liabilities					
Trade and other payables	26	96,382	147,702	279,720	242,816
Amounts due to related parties . . .	32	7,669	6,331	—	—
Contract liabilities	5	14,382	17,634	26,929	24,265
Current income tax liabilities		38	—	—	2,681
Borrowings	28	9,400	4,050	10,000	13,400
Lease liabilities	27	11,950	13,076	12,170	17,868
Total current liabilities		139,821	188,793	328,819	301,030
Total liabilities		285,762	383,851	772,609	1,043,814
Total deficit and liabilities		172,393	232,689	473,197	511,750

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ACCOUNTANT’S REPORT

BALANCE SHEETS OF THE COMPANY

		As at 31 December			As at 30 June
	Note	2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Interests in subsidiaries	12(a)	53,535	50,752	74,192	87,650
Loan to a subsidiary	12(b)	—	—	27,453	27,499
Total non-current assets		<u>53,535</u>	<u>50,752</u>	<u>101,645</u>	<u>115,149</u>
Current assets					
Loan to a subsidiary	12(b)	8,683	8,981	10,420	671
Prepayments, deposits and other receivables		—	—	2,661	5,783
Amount due from a related party . .	32	18	18	18	—
Cash and cash equivalents	22	<u>367</u>	<u>6</u>	<u>13,375</u>	<u>10,672</u>
Total current assets		<u>9,068</u>	<u>9,005</u>	<u>26,474</u>	<u>17,126</u>
Total assets		<u><u>62,603</u></u>	<u><u>59,757</u></u>	<u><u>128,119</u></u>	<u><u>132,275</u></u>
DEFICIT					
Share capital	23	18	18	18	18
Other reserves	24	(1,702)	1,403	(8,995)	(10,319)
Accumulated losses		<u>(26,907)</u>	<u>(72,851)</u>	<u>(269,294)</u>	<u>(555,549)</u>
Total deficit		<u><u>(28,591)</u></u>	<u><u>(71,430)</u></u>	<u><u>(278,271)</u></u>	<u><u>(565,850)</u></u>
LIABILITIES					
Non-current liabilities					
Hybrid financial instruments	25	<u>91,194</u>	<u>131,187</u>	<u>402,198</u>	<u>684,913</u>
Current liabilities					
Other payables		—	—	4,192	13,212
Total liabilities		<u>91,194</u>	<u>131,187</u>	<u>406,390</u>	<u>698,125</u>
Total deficit and liabilities		<u><u>62,603</u></u>	<u><u>59,757</u></u>	<u><u>128,119</u></u>	<u><u>132,275</u></u>

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ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company			
	Share capital	Other reserves	Accumulated losses	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2016	18	3,148	(76,137)	(72,971)
Comprehensive loss				
Loss for the year	—	—	(35,420)	(35,420)
Other comprehensive loss				
- Currency translation differences	—	(5,054)	—	(5,054)
Total comprehensive loss	—	(5,054)	(35,420)	(40,474)
Share-based compensation	—	76	—	76
Balance at 31 December 2016	<u>18</u>	<u>(1,830)</u>	<u>(111,557)</u>	<u>(113,369)</u>
Balance at 1 January 2017	18	(1,830)	(111,557)	(113,369)
Comprehensive loss				
Loss for the year	—	—	(44,005)	(44,005)
Other comprehensive income				
- Currency translation differences	—	5,999	—	5,999
Total comprehensive loss	—	5,999	(44,005)	(38,006)
Share-based compensation	—	213	—	213
Balance at 31 December 2017	<u>18</u>	<u>4,382</u>	<u>(155,562)</u>	<u>(151,162)</u>
Balance at 1 January 2018	18	4,382	(155,562)	(151,162)
Comprehensive loss				
Loss for the year	—	—	(136,935)	(136,935)
Other comprehensive loss				
- Currency translation differences	—	(12,858)	—	(12,858)
Total comprehensive loss	—	(12,858)	(136,935)	(149,793)
Share-based compensation	—	1,543	—	1,543
Balance at 31 December 2018	<u>18</u>	<u>(6,933)</u>	<u>(292,497)</u>	<u>(299,412)</u>

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	Attributable to equity holders of the Company			
	Share capital	Other reserves	Accumulated losses	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2019	18	(6,933)	(292,497)	(299,412)
Comprehensive loss				
Loss for the period	—	—	(229,202)	(229,202)
Other comprehensive loss				
- Currency translation differences	—	(5,123)	—	(5,123)
Total comprehensive loss	—	(5,123)	(229,202)	(234,325)
Share-based compensation	—	1,673	—	1,673
Balance at 30 June 2019	<u>18</u>	<u>(10,383)</u>	<u>(521,699)</u>	<u>(532,064)</u>
(Unaudited)				
Balance at 1 January 2018	18	4,382	(155,562)	(151,162)
Comprehensive income				
Profit for the period	—	—	21,147	21,147
Other comprehensive loss				
- Currency translation differences	—	(1,442)	—	(1,442)
Total comprehensive income	—	(1,442)	21,147	19,705
Share-based compensation	—	173	—	173
Balance at 30 June 2018	<u>18</u>	<u>3,113</u>	<u>(134,415)</u>	<u>(131,284)</u>

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ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
	Note	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Cash flows from operating activities						
Cash (used in)/generated from operations	30	(16,874)	20,462	41,743	24,752	25,214
Income tax paid		—	(38)	—	—	—
Net cash (used in)/generated from operating activities		(16,874)	20,424	41,743	24,752	25,214
Cash flows from investing activities						
Purchase of property, plant and equipment		(6,450)	(3,092)	(3,270)	(502)	(2,811)
Purchase of financial assets at fair value through profit or loss		(5,950)	(5,000)	(74,700)	(74,700)	(8,000)
Purchase of intangible assets		—	(827)	—	—	(418)
Proceeds from disposal of property, plant and equipment		139	477	—	—	100
Proceeds from disposal of financial assets at fair value through profit or loss		20,997	5,004	74,791	60,777	8,002
Interest received		36	41	142	86	68
Net cash generated from/(used in) investing activities		8,772	(3,397)	(3,037)	(14,339)	(3,059)
Cash flows from financing activities						
Proceeds from issuance of convertible bonds	25	—	15,000	—	—	—
Proceeds from issuance of preferred shares	25	—	—	63,420	—	—
Proceeds from borrowings		17,840	60,900	44,040	20,060	55,630
Repayment of convertible bonds	25	—	—	(60,376)	—	—
Repayment of amounts due to related parties		—	(1,500)	(5,200)	—	—
Repayments of borrowings		(8,440)	(66,250)	(38,090)	(24,110)	(52,230)

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Note	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Payment of lease liabilities. .	(16,598)	(15,815)	(18,673)	(7,478)	(8,319)
Interest paid	(104)	(934)	(2,007)	(155)	(278)
[REDACTED] expenses paid.	—	—	(2,661)	—	(3,121)
Net cash used in financing activities	(7,302)	(8,599)	(19,547)	(11,683)	(8,318)
Net (decrease)/increase in cash and cash equivalents	(15,404)	8,428	19,159	(1,270)	13,837
Cash and cash equivalents at beginning of the year/period	28,232	12,828	21,256	21,256	40,341
Exchange losses on cash and cash equivalents	—	—	(74)	(42)	(26)
Cash and cash equivalents at end of the year/period	12,828	21,256	40,341	19,944	54,152
22					

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information and reorganisation

1.1 General information

Renrui Human Resources Technology Holdings Limited (formerly named as Renrui Education Limited) (the “Company”) was incorporated in the Cayman Islands on 14 October 2011 as an exempted company with limited liability. The registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of flexible staffing services, professional recruitment services and other human resources services in the People’s Republic of China (the “PRC”) (the “[REDACTED] Businesses”). The ultimate controlling parties of the Company are Mr. Zhang Jianguo, Mr. Zhang Feng and Ms. Zhang Jianmei (collectively the “Controlling Equity Holders”).

1.2 Reorganisation

Prior to the Reorganisation (as defined below), the [REDACTED] Businesses were carried by Chengdu Tianfu Renrui Education Consultation Co., Ltd. (“Chengdu Tianfu”) and its subsidiaries, which were held by the Controlling Equity Holders and controlled by the Company through the contractual arrangements dated 28 April 2012 (the “Old Contractual Arrangements”) entered into between (1) Chengdu Renrui Qicheng Education Consultation Co., Ltd. (“Chengdu Qicheng WOFE”), a wholly owned subsidiary of the Company, (2) Chengdu Tianfu and (3) the registered equity holders of Chengdu Tianfu, being the Controlling Equity Holders.

For preparation of the initial [REDACTED] of shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, the Group underwent an internal reorganisation (the “Reorganisation”) to transfer certain subsidiaries previously held by Chengdu Tianfu to Renrui Education (Hong Kong) Limited (“Renrui (HK)”), a Hong Kong subsidiary wholly held by the Company, leaving Liaoning Renrui Services Outsourcing Co., Ltd. (“Liaoning Renrui”), Beijing Ruilian Internet Technology Co., Ltd. (“Beijing Ruilian”) and Shanghai Renrui Internet Technology Co., Ltd. (“Shanghai Renrui”), which continue to be held directly by Chengdu Tianfu.

In addition, a series of contractual agreements (the “Modified Contractual Arrangements”) were entered into between Chengdu Qicheng WOFE, Chengdu Tianfu and the Controlling Equity Holders on 1 April 2019 to replace the Old Contractual Arrangements pursuant to which Chengdu Qicheng WOFE continues to exercise control over the financial and operational policies of Chengdu Tianfu and the remaining subsidiaries and became entitled to economic benefits generated by Chengdu Tianfu and the relevant subsidiaries.

As part of the Reorganisation, the Company acquired Sunflower Human Resources Limited from a limited partner of VMS Strategic Investment Fund, L.P. on 8 April 2019 with a consideration of US\$45,000. Sunflower Human Resources Limited holds a Hong Kong subsidiary, Tournesol Human Resources Limited with a licence to operate an employment agency issued by the Commissioner for Labour in Hong Kong. Before the acquisition, except for issued share capital of USD1, Sunflower Human Resources Limited and its subsidiary had no assets or liabilities. These companies have no operation since their incorporation. Accordingly, the acquisition does not constitute a business combination.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

In particular, the Group applied HKFRS 9 “Financial instruments”, HKFRS 15 “Revenue from Contracts with Customers” and HKFRS 16 “Leases” throughout the Track Record Period.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”), issued by HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“FVPL”) and hybrid financial instruments, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

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- (i) *New standards, amendments to existing standards and interpretation not yet adopted by the management of the Group*

A number of new standards, amendments to existing standards and interpretation have been issued but are not yet effective for the Track Record Period, and have not been early adopted by the Group’s management. These new standards, amendments and interpretation are set out below:

	<u>Effective for accounting year beginning on or after</u>
HKFRS 17 — Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28 — Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS 1 and HKAS 8 — Definition of material.	1 January 2020
Amendments to HKFRS 3 — Definition of a business	1 January 2020
Conceptual framework for financial reporting 2018	1 January 2020

The Group is in the process of assessing potential impact of the above new standards, amendments to standards and interpretation that are relevant to the Group upon initial application. According to the preliminary assessment made by the directors of the Company, the management does not anticipate any significant impact on the Group’s financial position and results of operations upon adopting the above new standards, amendments to existing standards. The management of the Group plans to adopt these new standards, amendments to existing standards and interpretation when they become effective.

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statements, statements of changes in equity and consolidated balance sheets respectively.

2.2.1 Subsidiaries controlled through Contractual Arrangements

The Group obtained control over Chengdu Tianfu and the relevant PRC subsidiaries through the Old Contractual Arrangements before the Reorganisation, and subsequently replaced by the Modified Contractual Arrangements entered into between Chengdu Qicheng WOFE, Chengdu Tianfu and the Controlling Equity Holders, which enable Chengdu Qicheng WOFE to:

- govern the financial and operating policies of Chengdu Tianfu and the relevant PRC subsidiaries;
- exercise equity holder’s voting rights of Chengdu Tianfu and the relevant PRC subsidiaries;
- receive all of the economic interest returns generated by Chengdu Tianfu and the relevant PRC subsidiaries in consideration of the exclusive business cooperation agreements;
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in Chengdu Tianfu and the relevant PRC subsidiaries at any time and from time to time; and
- obtain a pledge over the entire interests in Chengdu Tianfu from the Controlling Equity Holders to secure performance of entities’ obligation under the contractual arrangements.

As a result of the aforesaid contractual arrangements, the Group has rights to exercise power over Chengdu Tianfu and the relevant PRC subsidiaries, receive variable returns from its involvement with these entities, has the ability to affect those returns through its power over the entities and is considered to control the entities. Consequently, the Company regarded Chengdu Tianfu and the relevant PRC subsidiaries as controlled structured entities and consolidated the financial position and results of operations of these entities in the Historical Financial Information of the Group during the Track Record Period.

Nevertheless, there are still uncertainties regarding the interpretation and application of current and future PRC laws and regulations. The directors of the Company, based on the advice of its legal counsel, consider that the use of the aforesaid contractual arrangements are in compliance with the relevant PRC laws and regulations are legally enforceable.

2.2.2 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRS.

2.2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

Items included in the Historical Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The Company’s functional currency is United States Dollar (“USD”) as its key activities and transactions are denominated in USD. The Company’s primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. Historical Financial Information is presented in RMB, which is the Group’s presentation currency.

2.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in consolidated income statements.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statements.

2.4.3 Group companies

The results and balance sheets of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified into profit and loss, as part of gain or loss on sale.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- | | |
|--|---|
| • right-of-use assets | the term of lease |
| • computer equipment (including servers) | 1~3 years |
| • electrical appliances | 1~3 years |
| • furniture | 5 years |
| • leasehold improvements | lesser of the term of the lease or the estimated useful lives of the assets |

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised in “Other (losses)/gains, net” in the consolidated income statements.

Right-of-use assets included the rights to use certain properties under leases which are measured at cost. The initial costs of right-of-use assets include the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the term of lease on a straight-line basis.

2.6 Intangible assets

Intangible assets include software purchased from third parties. They are initially recognised and measured at cost or fair value if they are acquired in business combinations. The intangible assets are amortised over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset’s future economic benefits are expected to be consumed.

The Group amortises intangible assets with a limited useful life using the straight-line method over 5 years.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows (“pass through” requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value (FVPL) plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit and loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Transaction cost of financial assets carried at FVPL are expensed in profit and loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in “Other (losses)/gains, net” in the consolidated income statement together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statements.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in “Other (losses)/gains, net” in the consolidated income statement in the period in which it arises.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group applies the simplified approach permitted by HKFRS 9 on trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

While cash and cash equivalents is also subject to the impairment requirements of HKFRS 9, the identified impairment loss is immaterial.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.10 Trade and other receivables

Trade receivables are amounts due from clients for services provided in the ordinary course of business.

Trade receivables are generally due for settlement within 1 year and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 21 for further information about the Group’s accounting for trade receivables and Note 3.1 for a description of the Group’s impairment policies.

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with banks with original maturity of three months or less.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax from the proceeds. Preferred shares, which are redeemable, are classified as liabilities (Note 25).

2.13 Trade and other payables

Trade payables represent liabilities for services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities if payment is due within 12 months. If not, they are presented as non-current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.15 Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Hybrid financial instruments

Hybrid financial instruments include convertible bonds and convertible redeemable preferred shares (“Preferred Shares”).

(a) Convertible bonds

Convertible bonds which entitle the holder a put option (i.e. an option to require the Group to redeem in cash) and an option to convert into a variable number of equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as compound instruments consisting of a liability and a derivative component.

(b) Preferred Shares

Preferred Shares which entitle the holder to participate in dividends appropriation in preference to holders of ordinary shares, subject to the discretion of the directors of the Company, are regarded as compound instruments that consist of a liability component and an embedded derivative.

Pursuant to HKFRS 9, hybrid financial instruments are accounted for in their entirety as financial liabilities through profit and loss, with fair value changes reflected in FVPL within the consolidated income statements, except for the portion attributable to credit risk change that should be charged to other comprehensive income. Accordingly, the embedded conversion features do not require future evaluation, bifurcation, and separate accounting as the change in fair value of embedded feature is reflected in the change in fair value in the compound instruments under such “whole instruments” approach. Issue costs that are directly attributable to the issue of the instruments, designated as financial liabilities at fair value through profit and loss, are recognised immediately in the consolidated income statements.

The instruments are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2.17.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company’s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.17.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.18 Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees’ salaries, subject to a certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The contributions are recognised as employee benefit expenses when they are due.

2.19 Share-based payments

The Group has granted tranches of share options during the Track Record Period. The Group receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognised as expenses in the consolidated income statements.

2.19.1 Share options

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing models:

- including any market performance conditions

- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.19.2 Modifications and Cancellations

The Group may modify the terms and conditions on which share incentive awards were granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognised for the services received over the remainder of the vesting period.

A grant of share incentive awards, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group immediately recognises the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

2.19.3 Share-based payments transactions among group entities

The grant by the Company of share options to the employees of the subsidiaries are treated as a capital contribution in the separate financial statements of the Company. The fair value of employee services received, determined by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding adjustment to equity in the separate financial statements of the Company.

2.20 Revenue recognition

Revenue is recognised when or as the control of the services is transferred to a client. Depending on the terms of the contract and the laws that apply to the contract, control of the services may be transferred over time or at a point in time. Control of the services is transferred over time if the Group’s performance provides all of the benefits received and consumed simultaneously by the client.

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the client obtains control of the services.

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Contracts with clients may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to clients. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity’s performance and the client’s payment.

A contract asset is the Group’s right to consideration in exchange for services that the Group has transferred to a client. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a client pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers service to the client, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group’s obligation to transfer services to a client for which the Group has received consideration (or an amount of consideration is due) from the client.

2.20.1 The accounting policy for the Group’s principal revenue sources

(a) Flexible staffing

The Group provides flexible staffing services to meet the clients’ staffing needs with the Group’s employees performing duties under the clients’ direct instructions, and the Group is primarily responsible for ensuring the quality and stability of the available staffing resources. The Group generally enters into flexible staffing contracts with the clients to provide sufficient staffing resources for a contract term of one to two years. The clients are usually billed on monthly basis for the service fee calculated based on a pre-agreed amount or unit rate per employee.

The Group controls flexible staffing services before transferring to the clients and is primarily responsible for fulfilling the contracts to ensure the quality and stability of the available staffing resources, which all together forms a single performance obligation. The Group is subject to the risks associated with employment of the employees. Revenue for flexible staffing is recognised on a gross basis over time as the clients simultaneously receive and consume the benefits provided by the Group’s performance, while the labor costs paid to the Group’s employees are recognised as cost of revenue.

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(b) Professional recruitment

The Group provides recruitment services of junior or middle to senior level positions of different functions across various industries. The service fee is calculated based on either a fixed fee per placement or as a percentage of the salary of the successfully placed candidates.

The recruitment contracts generally include only a single performance obligation, while for certain contracts, the Group will also guarantee the replacement of the candidate within a short period of time, normally one month. In such case, contract price will be allocated between the recruitment and replacement service based on stand-alone selling price. The Group normally receives part of the recruitment fees upfront, which are recognised as contract liabilities. The revenue related to recruitment service is recognised at the point in time when the Group successfully places the candidates, and this is the timing when the clients have accepted the Group’s services of providing selected candidates. The revenue related to replacement service will be recognised at the point in time when the service is provided.

Certain clients also pay membership fees to the Group to request a package of services, including arranging interviews or advertising job openings on the Group’s platform for a contract term of one year or less. The Group normally receives all of the membership fees upfront, such amount is non-refundable and recognised as contract liabilities. Under the membership fees model, the services can be divided into two categories: i) consumption-based services such as arranging interviews, top display of job postings, etc; and ii) time based services such as unlimited normal job postings and access to the Group’s platform, etc. Each service is a performance obligation, and the transaction price is generally allocated to each performance obligation on the basis of relative stand-alone selling price. The revenue from the consumption-based services is recognised upon the consumption of the individual service. The revenue from the time-based service is recognised on a straight-line basis over the contract period.

(c) Other HR services

Other HR services comprise business process outsourcing (“BPO”) services, labor dispatch services and corporate training services.

For BPO services, the Group is responsible for maintaining sufficient number of employees to perform the whole business function outsourced to the Group under the Group’s direct supervision, such as call center client services. The Group generally enters into BPO contracts with the clients for a contract term of one year, which include only a single performance obligation. The clients are usually billed on monthly basis for the service fee calculated based on number of employees required times unit rate per employee or a pre-agreed lump sum amount.

Since the Group controls BPO services before transferring to the clients, is primarily responsible for fulfilling the contracts to ensure the quality and performance of the outsourced business function, is subject to the risks associated with employment of the employees, and has discretion in establishing prices, which all together forms a single performance obligation, the BPO revenue is recognised on a gross basis over time as the clients simultaneously receive and consume the benefits provided by the Group’s performance, while the labor costs paid to the Group’s employees or the Group’s subcontractors are recognised as cost of revenue.

For labor dispatch services, the Group acts as a dispatching agent. Labor dispatch services involve a tripartite legal relationship among the employees, the clients and the Group in which the clients have a legal relationship with the employees and assume the risks associated with employment of the employees; the Group is mainly responsible for administrative work, including onboarding and existing procedures, salary payment, etc which is considered as one performance obligation performed on monthly basis. Although the Group is associated with certain risk of the employee as the Group helps the administration work, the Group does not control employee’s labor services, is not responsible for the employee’s fulfillment of the labor contract, has no discretion of the price paid to the employee, therefore the labor dispatch revenue is recorded on a net basis over time as the clients simultaneously receive and consume the benefits provided by the Group’s performance of the monthly administration work, while the labor costs paid to the employees are recorded to net off revenue.

For corporate training services, the Group provides the training and development courses which are tailored for the clients. The training services revenue is recognised at the point in time when the training courses have been delivered.

2.21 Lease

The Group leases various properties. Property leases are typically made for fixed periods of one to six years. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Property leases are recognised as right-of-use assets (included in property, plant and equipment) and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group’s incremental borrowing rate.

For a contract that contains a lease component and non-lease component, the Group allocates 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.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise IT-equipment and small items of office furniture.

2.22 Dividends distribution

Dividend distribution to the Company’s equity holders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s equity holders or directors, where appropriate.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.24 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Research and development

Research expenditures are recognised as expenses as incurred. Costs incurred on development projects are capitalised as intangible assets when recognition criteria are met, including:

- (a) it is technically feasible to complete the software so that it will be available for use;
- (b) management intends to complete the software and use or sell it;
- (c) there is an ability to use or sell the software;
- (d) it can be demonstrated how the software will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- (f) the expenditure attributable to the software during its development can be reliably measured.

Other development costs that do not meet those criteria are expensed as incurred.

There were no development costs meeting these criteria and capitalised as intangible assets as of December 31, 2016, 2017 and 2018 and June 30, 2019.

3 Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures during the Track Record Period.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities’ functional currency. The functional currency of the Company is USD whereas the functional currency of the subsidiaries operating in the PRC is RMB.

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The Group operates mainly in the PRC with most of the transactions settled in RMB, management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group’s entities.

(ii) Cash flow and fair value interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates, as the Group has no significant interest-bearing assets except for cash and cash equivalents measured at amortised cost.

The Group’s exposure to changes in interest rates is also attributable to its borrowings and lease liabilities, details of which has been disclosed in Notes 28 and 27. Borrowings and lease liabilities carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

At 31 December 2016, 2017 and 2018 and 30 June 2019, the Group’s borrowings and lease liabilities were all carried at fixed rates, which did not expose the Group to cash flow interest rate risk.

(b) *Credit risk*

Credit risk is managed on a group basis. The Group’s credit risk arises from cash and cash equivalents as well as credit exposures to clients, including outstanding receivables.

(i) Cash and cash equivalents

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group expects that there is no significant credit risk associated with cash and cash equivalents since most of them are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

(ii) Trade receivables

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to clients with an appropriate credit history and the management performs ongoing credit evaluations of its clients. The credit period granted to the clients is typically of 10-70 days and the credit quality of these clients is assessed, which takes into account their financial position, past experience and other factors. The Group applies HKFRS 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Expected credit losses are determined based on historical losses incurred in the past 12 months of each reporting date. The expected credit losses also incorporate forward looking information. The Group identifies GDP growth rate and unemployment rate as the key economic variables impacting the expected credit losses.

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On that basis, the loss allowance for trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019 was determined as follows:

31 December 2016	Current	Past due less than 3 months	Past due from 4 months to 6 months	Past due from 7 months to 9 months	Past due from 10 months to 1 year	Past due over 1 year	Total
Expected loss rate	0.10%	0.46%	5.34%	21.88%	65.03%	100.00%	
Gross carrying amount . .	76,696	13,828	390	352	143	643	92,052
Loss allowance provision	77	63	21	77	93	643	974

31 December 2017	Current	Past due less than 3 months	Past due from 4 months to 6 months	Past due from 7 months to 9 months	Past due from 10 months to 1 year	Past due over 1 year	Total
Expected loss rate	0.10%	2.00%	25.70%	47.42%	65.36%	100.00%	
Gross carrying amount . .	125,345	28,054	1,257	989	840	1,110	157,595
Loss allowance provision	125	559	323	469	549	1,110	3,135

31 December 2018	Current	Past due less than 3 months	Past due from 4 months to 6 months	Past due from 7 months to 9 months	Past due from 10 months to 1 year	Past due over 1 year	Total
Expected loss rate	0.10%	1.05%	19.67%	55.83%	69.49%	100.00%	
Gross carrying amount . .	257,495	73,490	1,678	240	118	4,524	337,545
Loss allowance provision	257	774	330	134	82	4,524	6,101

30 June 2019	Current	Past due less than 3 months	Past due from 4 months to 6 months	Past due from 7 months to 9 months	Past due from 10 months to 1 year	Past due over 1 year	Total
Expected loss rate	0.10%	1.31%	8.06%	22.01%	86.11%	100.00%	
Gross carrying amount . .	274,632	41,422	20,065	268	72	3,699	340,158
Loss allowance provision	275	543	1,618	59	62	3,699	6,256

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(iii) Other receivables

For other receivables, the Group applies the general model for expected credit losses prescribed by HKFRS 9, since credit risk has not significantly increased after initial recognition, provision is provided, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the loss allowance provision of other receivables were RMB141,000, RMB121,000, RMB148,000 and RMB448,000, respectively.

Movement on the Group’s allowance for impairment of trade receivables and other receivables was as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB’000	RMB’000	RMB’000	RMB’000
At the beginning of the year	105	1,115	3,256	6,249
Provision	1,010	2,141	2,993	455
At the end of the year.	1,115	3,256	6,249	6,704

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing to meet its daily operation working capital.

The table below analyses the Group’s financial liabilities by relevant maturity grouping at each balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months from the balance sheet date equal to their carrying amounts in the consolidated balance sheets, as the impact of discount is not significant.

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	Less than 1 year/ repayable on demand <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2016					
Borrowings	9,850	—	—	—	9,850
Trade and other payables*.	12,237	—	—	—	12,237
Hybrid financial instruments#	—	—	125,430	—	125,430
Amounts due to related parties	8,408	—	—	—	8,408
Lease liabilities	12,277	14,693	8,755	164	35,899
	<u>42,772</u>	<u>14,693</u>	<u>134,185</u>	<u>164</u>	<u>191,824</u>
At 31 December 2017					
Borrowings	4,108	—	—	—	4,108
Trade and other payables*.	16,185	—	—	—	16,185
Hybrid financial instruments#	—	—	187,567	—	187,567
Amounts due to related parties	6,638	—	—	—	6,638
Lease liabilities	13,779	6,414	2,357	—	22,550
	<u>40,710</u>	<u>6,414</u>	<u>189,924</u>	<u>—</u>	<u>237,048</u>
At 31 December 2018					
Borrowings	10,142	—	—	—	10,142
Trade and other payables*	40,802	—	—	—	40,802
Hybrid financial instruments#	—	—	402,198	—	402,198
Lease liabilities	12,513	15,545	34,403	—	62,461
	<u>63,457</u>	<u>15,545</u>	<u>436,601</u>	<u>—</u>	<u>515,603</u>
At 30 June 2019					
Borrowings	13,590	—	—	—	13,590
Trade and other payables*	38,606	—	—	—	38,606
Hybrid financial instruments#	—	325,792	359,121	—	684,913
Lease liabilities	21,975	19,477	44,650	—	86,102
	<u>74,171</u>	<u>345,269</u>	<u>403,771</u>	<u>—</u>	<u>823,211</u>

* Excluding non-financial liabilities of accrued payroll and welfare and value-added tax (“VAT”) and surcharges.

The amounts of hybrid financial instruments are not measured at undiscounted cash flows, but at fair value.

3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders; and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (exclude hybrid financial instruments) less cash and cash equivalents. Total capital is calculated as total equity plus net debt.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had deficit (i.e., cash and cash equivalents is higher than borrowing), hence it is not meaningful to present the gearing ratio.

3.3 Fair value estimation

The table below analyses the Group’s financial instruments carried at fair value as at 31 December 2016, 2017 and 2018 and 30 June 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group’s financial assets at fair value through profit or loss mainly represented wealth management products purchased from banks. The Group had no financial assets at fair value through profit or loss as at 31 December 2016, 2017 and 2018 and 30 June 2019.

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The following table presents the Group’s liabilities that are measured at fair value as at 31 December 2016, 2017 and 2018 and 30 June 2019.

Recurring fair value measurements	Level 1	Level 2	Level 3
	RMB’000	RMB’000	RMB’000
As at 31 December 2016			
Financial liabilities — Hybrid financial instruments	<u>—</u>	<u>—</u>	<u>125,430</u>
As at 31 December 2017			
Financial liabilities - Hybrid financial instruments	<u>—</u>	<u>—</u>	<u>187,567</u>
As at 31 December 2018			
Financial liabilities - Hybrid financial instruments	<u>—</u>	<u>—</u>	<u>402,198</u>
As at 30 June 2019			
Financial liabilities - Hybrid financial instruments	<u>—</u>	<u>—</u>	<u>684,913</u>

There were no transfers among levels of the fair value hierarchy during the Track Record Period.

The following table presents the changes in level 3 instruments of financial liabilities at fair value through profit or loss for the years ended 31 December 2016, 2017 and 2018 and 30 June 2019.

	Year ended 31 December			Six months ended
	2016	2017	2018	30 June
	RMB’000	RMB’000	RMB’000	RMB’000
At the beginning of the year/period	117,687	125,430	187,567	402,198
Issuance	—	15,000	63,420	—
Repayment	—	—	(60,376)	—
Fair value change	1,922	53,875	196,542	277,804
Currency translation reserve	5,821	(6,738)	15,045	4,911
At the end of the year/period	<u>125,430</u>	<u>187,567</u>	<u>402,198</u>	<u>684,913</u>

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The Group manages the valuation of level 3 instruments for financial reporting purposes and manages the valuation exercise of the instruments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group’s level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments included hybrid financial instruments (Note 25). As hybrid financial instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc. Major key assumptions used in the valuation for hybrid financial instruments are presented in Note 25.

Fair value of hybrid financial instruments is affected by changes in the Company’s equity value. If the Company’s equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 would have been approximately RMB6.4 million higher/lower, RMB10.5 million higher/lower, RMB29.5 million higher/lower, RMB67.5 million higher/lower, respectively. Detailed quantitative sensitivity analysis is presented in Note 25.

4 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group’s accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

4.1 *Current and deferred income tax*

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences tax losses are recognised when management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. At 31 December 2016, 2017 and 2018 and 30 June 2019, the Group did not recognise deferred income tax asset in respect of cumulative tax loss of approximately RMB3,492,000, RMB3,539,000, RMB3,774,000 and RMB3,813,000 respectively. The outcome of their actual utilisation may be different from management’s estimation. These tax losses will expire from 2019 to 2024.

4.2 Fair value of hybrid financial instruments

The fair value of hybrid financial instruments that are not traded in an active market is determined by using valuation techniques. The Group applied the market approach or the discounted cash flow approach to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the hybrid financial instruments. Key assumptions such as the timing of the liquidation, redemption or [REDACTED] event as well as the probability of the various scenarios were based on the Group’s best estimates.

4.3 Contractual arrangements

Before the Reorganisation, the Group conducted the [REDACTED] Businesses through Chengdu Tianfu and its PRC subsidiaries. After the Reorganisation, the Group conducts part of the [REDACTED] Businesses through Chengdu Tianfu and the relevant subsidiaries remained under Chengdu Tianfu. The Group does not have any legal ownership in Chengdu Tianfu. The Directors assessed whether or not the Group has power over relevant activities of Chengdu Tianfu and the relevant subsidiaries and whether it has the rights to variable returns from its involvement with Chengdu Tianfu and the relevant subsidiaries. Nevertheless, the contractual arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Chengdu Tianfu and the relevant PRC subsidiaries and uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of Chengdu Tianfu and the relevant subsidiaries. The Directors, based on the advice of its legal counsel, consider that the contractual arrangements with Chengdu Tianfu and its registered equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

4.4 Fair value of share-based compensation expenses

The Group awarded share options to eligible senior management and employees. The fair value of the share options are determined by Binomial model at the grant date, and is expected to be expensed over the respective vesting period.

Significant estimate on assumptions, including underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the directors and third-party valuer. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share options expected to become vested, which may in turn significantly impact the determination of the share options expenses.

4.5 Principal versus agent considerations

Determining whether the Group is acting as a principal or as an agent in the provision of certain services to its clients requires judgment and consideration of all relevant facts and circumstances. In evaluation of the Group’s role as a principal or agent, the Group considers, individually or in combination, whether the Group controls the specified service before it is transferred to the client, is primarily responsible for meeting client specifications, is subject to the risk associated with employment, and has discretion in establishing prices.

5 Segment information and revenue

5.1 Segment Information

The Group’s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and segment gross profit. Thus, segment result would present revenue and gross profit for each segment, which is in line with CODM’s performance review.

Flexible staffing

The flexible staffing segment offers contingent workers for clients who wish to manage their own headcount or only require worker for limited time or a specific project. The Group provides contingent workers contracted with the Group that the Group finds suitable for the job descriptions and assign them to the clients.

Professional recruitment

The professional recruitment segment offers headhunting service. The Group helps clients search for, identify and recommend suitable candidates for the job vacancies. Also, the Group assists clients’ hiring process, which include candidate assessments, screening and conducting candidate interviews.

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Other HR solutions

The Group provides other human resource services as BPO, corporate training and labor dispatch.

The principal operating entities of the Group are domiciled in the PRC. Accordingly, almost all of the Group’s revenue were derived in the PRC during the Track Record Period.

The segment information provided to the Group’s CODM for the reportable segments for Track Record Period is as follows:

	Year ended 31 December 2016			
	Flexible staffing	Professional recruitment	Other HR solutions	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Segment revenue	317,354	46,634	12,300	376,288
Segment gross profit.	19,206	12,834	9,027	41,067
Unallocated:				
Selling and marketing expenses.				(33,942)
Research and development expenses.				(16,599)
Administrative expenses				(32,827)
Other income				2,016
Fair value loss of hybrid financial instruments				(1,922)
Other losses, net				(1,114)
Net impairment losses on financial assets.				(1,010)
Finance costs, net				(2,864)
Loss before income tax				(47,195)
Income tax credit				11,775
Loss for the year				(35,420)

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	Year ended 31 December 2017			
	Flexible staffing	Professional recruitment	Other HR solutions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	706,232	58,645	11,370	776,247
Segment gross profit	53,023	27,046	7,679	87,748
Unallocated:				
Selling and marketing expenses				(33,476)
Research and development expenses				(13,807)
Administrative expenses				(32,949)
Other income				6,578
Fair value loss of hybrid financial instruments				(53,875)
Other gains, net				1,404
Net impairment losses on financial assets				(2,141)
Finance costs, net				(2,915)
Loss before income tax				(43,433)
Income tax expense				(572)
Loss for the year				(44,005)

	Year ended 31 December 2018			
	Flexible staffing	Professional recruitment	Other HR solutions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	1,514,950	68,369	32,572	1,615,891
Segment gross profit	113,119	31,053	10,784	154,956
Unallocated:				
Selling and marketing expenses				(42,394)
Research and development expenses				(13,088)
Administrative expenses				(48,095)
Other income				9,409
Fair value loss of hybrid financial instruments				(196,542)
Other losses, net				(268)
Net impairment losses on financial assets				(2,993)
Finance costs, net				(1,548)
Loss before income tax				(140,563)
Income tax credit				3,628
Loss for the year				(136,935)

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	Six months ended 30 June 2019			
	Flexible staffing	Professional recruitment	Other HR solutions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	1,023,532	30,222	23,607	1,077,361
Segment gross profit	97,715	11,197	7,014	115,926
Unallocated:				
Selling and marketing expenses				(22,989)
Research and development expenses				(7,126)
Administrative expenses				(33,060)
Other income				5,367
Fair value loss of hybrid financial instruments				(277,804)
Other gains, net				181
Net impairment losses on financial assets				(455)
Finance costs, net				(2,676)
Loss before income tax				(222,636)
Income tax expense				(6,566)
Loss for the period				(229,202)

	Six months ended 30 June 2018			
	Flexible staffing	Professional recruitment	Other HR solutions	Total
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Segment revenue	617,457	30,364	11,205	659,026
Segment gross profit	41,904	12,422	3,689	58,015
Unallocated:				
Selling and marketing expenses				(16,424)
Research and development expenses				(6,501)
Administrative expenses				(17,066)
Other income				5,529
Fair value loss of hybrid financial instruments				(529)
Other losses, net				(165)
Net impairment losses on financial assets				(1,768)
Finance costs, net				(839)
Profit before income tax				20,252
Income tax credit				895
Profit for the period				21,147

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5.2 Segment assets

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

5.3 Disaggregation of revenue from contracts with clients

(a) The Group derives revenue in the following types:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Flexible staffing	317,354	706,232	1,514,950	617,457	1,023,532
Professional recruitment					
-Recruitment	44,671	51,291	62,434	27,832	27,824
-Paid membership	1,963	7,354	5,935	2,532	2,398
Other HR services					
- BPO	—	1,676	22,964	7,620	17,218
- Corporate training	2,472	1,583	965	189	350
- Labor dispatch	9,828	8,111	8,643	3,396	3,797
- Other miscellaneous service	—	—	—	—	2,242
	<u>376,288</u>	<u>776,247</u>	<u>1,615,891</u>	<u>659,026</u>	<u>1,077,361</u>

(b) The Group derives revenue from the transfer of services over time and at a point in time in the following major service lines:

2016	Flexible staffing	Professional recruitment	Other HR solutions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition				
At a point in time	—	46,634	2,472	49,106
Over time	<u>317,354</u>	<u>—</u>	<u>9,828</u>	<u>327,182</u>
	<u>317,354</u>	<u>46,634</u>	<u>12,300</u>	<u>376,288</u>

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2017	Flexible staffing	Professional recruitment	Other HR solutions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition				
At a point in time.	—	58,645	1,583	60,228
Over time.	<u>706,232</u>	<u>—</u>	<u>9,787</u>	<u>716,019</u>
	<u>706,232</u>	<u>58,645</u>	<u>11,370</u>	<u>776,247</u>
2018	Flexible staffing	Professional recruitment	Other HR solutions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition				
At a point in time.	—	68,332	965	69,297
Over time.	<u>1,514,950</u>	<u>37</u>	<u>31,607</u>	<u>1,546,594</u>
	<u>1,514,950</u>	<u>68,369</u>	<u>32,572</u>	<u>1,615,891</u>
Six Months ended 30 June 2019	Flexible staffing	Professional recruitment	Other HR solutions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition				
At a point in time.	—	29,593	350	29,943
Over time.	<u>1,023,532</u>	<u>629</u>	<u>23,257</u>	<u>1,047,418</u>
	<u>1,023,532</u>	<u>30,222</u>	<u>23,607</u>	<u>1,077,361</u>
Six Months ended 30 June 2018	Flexible staffing	Professional recruitment	Other HR solutions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Timing of revenue recognition				
At a point in time.	—	30,364	189	30,553
Over time.	<u>617,457</u>	<u>—</u>	<u>11,016</u>	<u>628,473</u>
	<u>617,457</u>	<u>30,364</u>	<u>11,205</u>	<u>659,026</u>

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(c) Information about major clients

The major client groups from whom the individual client group’s revenue amounted to 10% or more of the Group’s total revenue were as below:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Client group A	57,309	N/A*	N/A*	N/A*	N/A*
Client group B	N/A*	138,723	N/A*	82,755	N/A*
Client group C	N/A*	N/A*	345,850	93,267	367,233

* The corresponding client groups did not contribute over 10% of the total revenue for the respective years/period.

5.4 Contract liabilities

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB’000	RMB’000	RMB’000	RMB’000
Contract liabilities - professional recruitment	12,035	15,316	19,890	23,181
Contract liabilities - flexible staffing	1,537	1,605	4,161	749
Contract liabilities - other HR services	810	713	2,878	335
	<u>14,382</u>	<u>17,634</u>	<u>26,929</u>	<u>24,265</u>

Contract liabilities represent non-refundable advanced payments received from clients for services that have not yet been provided to the clients, which are expected to be satisfied during one year or less.

All of the Group’s revenue is made directly with the clients. For flexible staffing, BPO and labor dispatch, the clients are usually billed on monthly basis. For other services, the period of the services are generally within one year. As a practical expedient under HKFRS 15, transaction price allocated to these unsatisfied contracts is not disclosed.

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During the years ended in 2016, 2017 and 2018, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue. Revenue recognized during the six months ended 30 June 2019 in relation to contract liabilities balance at 1 January 2019 was RMB 6,903,000.

6 Expenses by nature

The following expenses include cost of revenue, selling and marketing expenses, research and development expenses and administrative expenses:

	Note	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Employee benefit expenses	7	365,539	709,449	1,463,063	606,082	958,673
Depreciation and amortisation	16&17	17,407	19,367	19,041	9,157	12,288
Travelling and entertainment expenses		6,460	9,220	20,229	6,233	14,402
Marketing and promotion expenses		7,116	8,240	13,165	3,632	9,877
Other taxes and surcharges		4,382	4,077	8,867	3,569	6,884
Subcontracting costs		—	1,175	10,927	4,359	365
[REDACTED] expenses		—	—	8,083	—	9,874
Recruitment related communication expenses		5,061	5,926	5,587	1,979	3,532
Utilities and office expenses		4,782	3,223	6,041	1,995	3,908
Professional service fees		2,392	1,119	2,554	765	1,332
Lease and property management expenses		3,783	4,496	2,705	1,992	1,792
Auditors’ remuneration (excluding [REDACTED] expenses)		78	165	442	123	203
Others		1,589	2,274	3,808	1,116	1,480
Total		<u>418,589</u>	<u>768,731</u>	<u>1,564,512</u>	<u>641,002</u>	<u>1,024,610</u>

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7 Employee benefit expenses

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Wages, salaries and bonus	278,857	564,546	1,161,976	488,359	782,400
Social insurance and housing fund .	78,314	135,653	272,682	107,643	165,285
Other employee welfares	8,292	9,037	26,862	9,907	9,315
Share-based payments	76	213	1,543	173	1,673
	<u>365,539</u>	<u>709,449</u>	<u>1,463,063</u>	<u>606,082</u>	<u>958,673</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one, two and one and two and one directors whose emoluments are reflected in the analysis shown in Note 8 for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019 respectively. The emoluments payable to the remaining individuals for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Wages, salaries and bonus	2,637	2,487	4,053	1,450	2,351
Social insurance and housing fund .	104	94	75	37	35
Share-based payments	9	11	176	69	203
	<u>2,750</u>	<u>2,592</u>	<u>4,304</u>	<u>1,556</u>	<u>2,589</u>

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The emoluments fell within the following bands:

	Number of individuals Year ended 31 December			Number of individuals Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>(Unaudited)</i>				
Emolument bands (in HKD)					
0 - 1,000,000	3	1	2	3	3
1,000,001 - 2,000,000	1	2	2	—	1
	<u>4</u>	<u>3</u>	<u>4</u>	<u>3</u>	<u>4</u>

8 Directors’ and chief executive’s emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

Name	Wages, salaries and bonuses	Pension costs and other employee benefits	Share-based payments	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<i>Chairman</i>				
Mr. Zhang Jianguo	360	15	—	375
<i>Executive directors</i>				
Mr. Zhang Feng	624	19	—	643
Ms. Zhang Jianmei	501	23	1	525
<i>Non-executive directors</i>				
Mr. Chen Rui	—	—	—	—
Total	<u>1,485</u>	<u>57</u>	<u>1</u>	<u>1,543</u>

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For the year ended 31 December 2017:

Name	Wages, salaries and bonuses	Pension costs and other employee benefits	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Chairman</i>				
Mr. Zhang Jianguo	376	17	—	393
<i>Executive directors</i>				
Mr. Zhang Feng	649	19	—	668
Ms. Zhang Jianmei	817	23	—	840
<i>Non-executive directors</i>				
Mr. Chen Rui	—	—	—	—
Total	<u>1,842</u>	<u>59</u>	<u>—</u>	<u>1,901</u>

For the year ended 31 December 2018:

Name	Wages, salaries and bonuses	Pension costs and other employee benefits	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Chairman</i>				
Mr. Zhang Jianguo	509	22	—	531
<i>Executive directors</i>				
Mr. Zhang Feng	636	19	—	655
Ms. Zhang Jianmei	1,097	23	37	1,157
<i>Non-executive directors</i>				
Mr. Chen Rui	—	—	—	—
Mr. Chow Siu Lui	—	—	—	—
Total	<u>2,242</u>	<u>64</u>	<u>37</u>	<u>2,343</u>

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For the six months ended 30 June 2019:

Name	Wages, salaries and bonuses	Pension costs and other employee benefits	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Chairman</i>				
Mr. Zhang Jianguo	300	11	—	311
<i>Executive directors</i>				
Mr. Zhang Feng	240	10	—	250
Ms. Zhang Jianmei	638	11	39	688
<i>Non-executive directors</i>				
Mr. Chen Rui	—	—	—	—
Mr. Chow Siu Lui	—	—	—	—
Total	<u>1,178</u>	<u>32</u>	<u>39</u>	<u>1,249</u>

Note: Except for Mr. Chow Siu Lui and Ms. Zhang Jianmei who were appointed in July 2018 and September 2018 respectively, all the other directors were appointed before the Track Record Period.

For the six months ended 30 June 2018:

Name	Wages, salaries and bonuses	Pension costs and other employee benefits	Share-based payments	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<i>Chairman</i>				
Mr. Zhang Jianguo	114	11	—	125
<i>Executive directors</i>				
Mr. Zhang Feng	240	9	—	249
Ms. Zhang Jianmei	571	12	37	620
<i>Non-executive directors</i>				
Mr. Chen Rui	—	—	—	—
Mr. Chow Siu Lui	—	—	—	—
Total	<u>925</u>	<u>32</u>	<u>37</u>	<u>994</u>

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(i) Benefits and interests of directors

Except for directors disclosed above, there is no other benefit offered to the other directors.

(ii) Directors’ termination benefits

No director’s termination benefit subsisted at the end of the period or at any time during the Track Record Period.

(iii) Consideration provided to third parties for making available directors’ services

No consideration provided to third parties for making available director’s services subsisted at the end of the period or at any time during the Track Record Period.

(iv) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors.

Excluding the information disclosed in Note 32, there were no other loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the period or at any time during the Track Record Period.

(v) Directors’ material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the Track Record Period.

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9 Other income

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Government grants					
(Note)	1,967	6,285	9,108	5,406	5,246
Others	49	293	301	123	121
	<u>2,016</u>	<u>6,578</u>	<u>9,409</u>	<u>5,529</u>	<u>5,367</u>

Note: The government grants mainly represented financial support funds from local government. There were no specific conditions or other contingencies attaching to these grants, and therefore, the Group recognised the grants upon receipts.

10 Other (losses)/gains, net

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Net losses on disposal of property, plant and equipment.	(238)	(105)	(18)	—	(31)
Exchange (losses)/gains-net	(538)	529	(129)	(121)	(33)
Gains on early termination of lease contracts.	153	982	—	—	300
Others	(491)	(2)	(121)	(44)	(55)
	<u>(1,114)</u>	<u>1,404</u>	<u>(268)</u>	<u>(165)</u>	<u>181</u>

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11 Finance costs - net

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
<i>Finance income</i>					
Interest income on cash and cash equivalents . .	83	45	233	163	70
<i>Finance costs</i>					
Interest expenses on lease liabilities	(2,290)	(1,976)	(1,224)	(677)	(2,468)
Interest expenses on amounts due to related parties	(475)	(430)	(310)	(177)	—
Interest expenses on borrowings	(182)	(554)	(247)	(148)	(278)
	(2,947)	(2,960)	(1,781)	(1,002)	(2,746)
Finance costs, net.	(2,864)	(2,915)	(1,548)	(839)	(2,676)

12 Interests in subsidiaries and loan to a subsidiary - Company

(a) Interests in subsidiaries

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from a subsidiary (Note)	53,389	50,588	74,028	84,016
Share-based payments	146	164	164	3,634
	53,535	50,752	74,192	87,650

Note: The amount due from a subsidiary represents funding provided by the Company to Renrui (HK). The balance is unsecured, non-interest bearing and has no specific repayment terms. Such amount due from the subsidiary will not be repaid in the foreseeable future.

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(b) Loan to a subsidiary

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Loan to a subsidiary				
-within one year	8,683	8,981	10,420	671
-over one year	—	—	27,453	27,499
	<u>8,683</u>	<u>8,981</u>	<u>37,873</u>	<u>28,170</u>

As at 26 March 2015, a loan of USD1.05 million was lent by the Company to Chengdu Qicheng WOFE. The loan was unsecured, unpledged and was extended semi-annually. The interest rate was 11.12% and repayment date is within one year. As at 21 May 2019, Chengdu Qicheng WOFE repaid the loan of USD1.05 million and the interest of USD 0.49 million.

As at 8 October 2018, a loan of USD4 million was lent by the Company to Chengdu Qicheng WOFE. The loan was unsecured, unpledged. The interest rate was 3.5% and repayment date is 7 October 2020.

Particulars of the subsidiaries of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 are as follows:

Name of the subsidiaries	Place of incorporation	Date of incorporation	Registered capital	Paid-in capital	Directly held (%)			As at 30 June 2019	As at the date of this report	Principal activities	Notes
					2016	2017	2018				
Renrui (HK)	Hong Kong	4 November 2011	NA	HKD1	100	100	100	100	100	Investment Holding	(i)
Sunflower Human Resources Limited	The British Virgin Islands	28 November 2018	USD50,000	USD1	—	—	—	100	100	Investment Holding	(ii)

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Name of the subsidiaries	Place of incorporation	Date of incorporation	Registered capital	Paid-in capital	Indirectly held (%)					Principal activities	Notes
					2016	2017	2018	As at 30 June 2019	As at the date of this report		
Beijing Renrui Human Resources Services Co., Ltd.	Beijing, China	23 December 2011	RMB10,000,000	RMB10,000,000	100	100	100	100	100	Human Resources Services	(xxiv)
Beijing Ruilian Network Technology Co. Ltd	Beijing, China	26 November 2013	RMB10,000,000	RMB10,000,000	100	100	100	100	100	Human Resources Services	(iv)
Tianjin Renrui Human Resources Services Co., Ltd.	Tianjin, China	19 June 2012	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(iii)
Xian Renrui Human Resources Services Co., Ltd.	Xian, China	1 August 2012	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(v)
Hefei Renrui Human Resources Services Co., Ltd.	Hefei, China	26 July 2012	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(ii)
Qingdao Renrui Human Resources Services Co., Ltd.	Qingdao, China	28 May 2013	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(iii)
Chengdu Qicheng WOFE	Chengdu, China	29 February 2012	USD13,250,000	USD11,650,000	100	100	100	100	100	Investment Holding	(vi)
Chengdu Tianfu	Chengdu, China	2 February 2010	RMB5,000,000	RMB5,000,000	100	100	100	100	100	Human Resources Services and Investment Holding	(vii)
Wuhan Renrui Human Resources Services Co., Ltd.	Wuhan, China	18 July 2012	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(viii)
Chengdu Renrui Labor Vocational Skills Training School	Chengdu, China	3 September 2010	RMB100,000	RMB100,000	100	100	100	100	—	Labor Skills Training	(xx)
Chongqing Renrui Human Resources Services Co., Ltd.	Chongqing, China	13 July 2012	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(ix)
Guangzhou Renrui Human Resources Services Co., Ltd.	Guangzhou, China	10 August 2012	RMB50,000,000	RMB12,000,000	100	100	100	100	100	Human Resources Services	(x)
Shenzhen Renrui Human Resources Services Co., Ltd.	Shenzhen, China	15 January 2013	RMB20,000,000	RMB4,000,000	100	100	100	100	100	Human Resources Services	(xi)
Shanghai Renrui	Shanghai, China	24 October 2012	RMB10,000,000	RMB10,000,000	100	100	100	100	100	Human Resources Services and R&D	(xii)
Shanghai Renhui Human Resources Services Co., Ltd.	Shanghai, China	27 April 2012	RMB20,000,000	RMB20,000,000	100	100	100	100	100	Human Resources Services	(xiii)

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Name of the subsidiaries	Place of incorporation	Date of incorporation	Registered capital	Paid-in capital	Indirectly held (%)					Principal activities	Notes
					2016	2017	2018	As at 30 June 2019	As at the date of this report		
Nanjing Renrui Labor Services Co., Ltd.	Nanjing, China	19 July 2012	RMB20,000,000	RMB20,000,000	100	100	100	100	100	Human Resources Services	(xiv)
Hangzhou Renrui Human Resources Services Co., Ltd.	Hangzhou, China	27 February 2013	RMB2,000,000	RMB2,000,000	100	100	100	100	100	Human Resources Services	(xv)
Suzhou Renrui Puhui Human Resources Services Co., Ltd.	Changshu, China	17 August 2016	RMB10,000,000	RMB10,000,000	100	100	100	100	100	Human Resources Services	(xxii)
Suzhou Renrui Yongdao Human Resources Services Co., Ltd.	Changshu, China	11 January 2017	RMB2,000,000	RMB2,000,000	—	100	100	100	100	Human Resources Services	(xvi)
Chengdu Xinan Renrui Human Resources Services Co., Ltd.	Chengdu, China	9 March 2017	RMB2,105,300	RMB2,000,000	—	95	95	95	95	Human Resources Services	(xxi)
Liaoning Renrui	Yingkou, China	4 August 2017	RMB20,000,000	RMB10,000,000	—	100	100	100	100	BPO Services	(xvii)
Ningbo Renrui Human Resources Services Co., Ltd.	Ningbo, China	22 March 2018	RMB2,000,000	RMB2,000,000	—	—	100	100	100	Human Resources Services	(xviii)
Liaoning Renrui Puhui Human Resources Services Co., Ltd.	Yingkou, China	27 July 2018	RMB20,000,000	RMB20,000,000	—	—	100	100	100	Human Resources Services	(xix)
Liaoning Renrui Yongdao Human Resources Services Co., Ltd.	Yingkou, China	27 July 2018	RMB20,000,000	RMB20,000,000	—	—	100	100	100	Human Resources Services	(xix)
Wuhan Huazhong Renrui Human Resources Services Co., Ltd.	Wuhan, China	10 August 2018	RMB10,000,000	RMB10,000,000	—	—	100	100	100	Human Resources Services	(xxiii)
Shangrao Renrui Human Resources Services Co., Ltd.	Shangrao, China	18 October 2018	RMB10,000,000	RMB10,000,000	—	—	100	100	100	Human Resources Services	(ii)
Tournesol Human Resources Limited	Hong Kong	11 December 2018	NA	USD1	—	—	—	100	100	Human Resources Services	(ii)
Shandong Renrui Human Resources Services Co., Ltd.	Jinan, China	7 January 2019	RMB3,000,000	RMB0	—	—	—	100	100	Human Resources Services	(ii)
Guiyang Renrui Services Outsourcing Co., Ltd.	Guiyang, China	28 February 2019	RMB10,000,000	RMB0	—	—	—	100	100	BPO Services	(ii)

- (i) This company’s statutory financial statements for the years ended 31 December 2016 and 2017 were audited by To & Ho Certified Public Accountants Limited. No audited financial statements for 31 December 2018 have been issued as at the date of this report.

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- (ii) No audited financial statements were prepared for these subsidiaries as it is not required to issue audited financial statements under the local statutory requirements.
- (iii) These companies’ statutory financial statements for the year ended 31 December 2016 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co.,Ltd. These companies’ statutory financial statements for the years ended 31 December 2017 and 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.
- (iv) The company’s statutory financial statements for the years ended 31 December 2016, 2017 and 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.
- (v) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Peking Certified Public Accountants Co.,Ltd Sichuan Branch. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (vi) This company’s statutory financial statements for the year ended 31 December 2016 and 2017 were audited by Peking Certified Public Accountants Co.,Ltd Sichuan Branch. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (vii) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Sichuan Huajun Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Peking Certified Public Accountants Co.,Ltd Sichuan Branch. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (viii) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Wuhan Hengtong Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Peking Certified Public Accountants Co.,Ltd Sichuan Branch. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (ix) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Sichuan Tancheng Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Peking Certified Public Accountants Co.,Ltd Sichuan Branch. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (x) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Guangzhou Yuehe Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Zhiheng Certified Public Accountants Co.,Ltd.
- (xi) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Shenzhen Huatu Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Zhiheng Certified Public Accountants Co.,Ltd.
- (xii) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Shanghai Zhaoxin Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the years ended 31 December 2017 and 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.
- (xiii) These company’s statutory financial statements for the years ended 31 December 2016, 2017 and 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.
- (xiv) This company’s statutory financial statements for the year ended 31 December 2016 were audited by Nanjing Yingtian Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Nanjing Zhonghe Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.

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- (xv) This company’s statutory financial statements for the years ended 31 December 2016 and 2017 were audited by Zhejiang Zhengda Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.
- (xvi) This company’s statutory financial statements for the year ended 31 December 2017 were audited by Suzhou Wanlong Yongding Certified Public Accountants Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co.,Ltd.
- (xvii) This company’s statutory financial statements for the years ended 31 December 2017 and 2018 were audited by Liaoning Zhongheng Certified Public Accountants Co.,Ltd, Yingkou Branch.
- (xviii) This company’s statutory financial statements for the years ended 31 December 2018 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co.,Ltd.
- (xix) These companies’ statutory financial statements for the year ended 31 December 2018 were audited by Liaoning Zhongheng Certified Public Accountants Co.,Ltd Yingkou Branch.
- (xx) This company’s statutory financial statements for the year ended 31 December 2016 and 2017 were audited by Sichuan Huajun Certified Public Accountant Co.,Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Zhiheng Certified Public Accountants Co.,Ltd.
- (xxi) This company’s statutory financial statements for the year ended 31 December 2017 were audited by Peking Certified Public Accountants Co.,Ltd Sichuan Branch. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (xxii) No audited financial statements of companies for the year ended 31 December 2016 were issued as the companies were incorporated in 2016 as it is not required to issue audited financial statements under the local statutory requirements. This company’s statutory financial statements for the year ended 31 December 2017 were audited by Suzhou Wanlong Yongding Certified Public Accountants Co., Ltd. This company’s statutory financial statements for the year ended 31 December 2018 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co., Ltd.
- (xxiii) This company’s statutory financial statements for the year ended 31 December 2018 were audited by Sichuan Dewen Certified Public Accountants Co.,Ltd.
- (xxiv) This company’s statutory financial statements for the years ended 31 December 2016 were audited by Beijing Zhongmin Jiande Certified Public Accountants Co., Ltd. This company’s statutory financial statements for the years ended 31 December 2017 and 2018 were audited by Shanghai Weihua Certified Public Accountants Partnership.

13 Income tax credit/(expense)

Cayman Islands

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands is not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to equity holders.

Hong Kong

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

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PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the Track Record Period.

Withholding tax on undistributed dividends

According to CIT law, distribution of profits earned by PRC companies since February 2015 is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the Track Record Period, the PRC companies does not have any profit distribution plan.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax	—	—	—	—	(2,681)
Deferred income tax	11,775	(572)	3,628	895	(3,885)
	<u>11,775</u>	<u>(572)</u>	<u>3,628</u>	<u>895</u>	<u>(6,566)</u>

The tax on the Group’s loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, being the tax rate of the major subsidiaries of the Group.

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The difference is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(Loss)/profit before income tax .	(47,195)	(43,433)	(140,563)	20,252	(222,636)
Tax calculated at PRC CIT rate of 25% income tax rate	11,799	10,858	35,141	(5,063)	55,659
Tax effects of:					
- Expenses not deductible for tax purpose	(243)	(416)	(989)	(891)	(1,871)
- Tax losses and temporary difference for which no deferred income tax asset was recognised	(1,216)	(1,769)	(341)	(162)	(426)
- Additional deduction of 100% of the wages paid to disabled employees	187	215	1,124	371	464
- Research and development tax credit	1,130	2,026	2,181	1,080	1,231
- Cayman Islands incorporated company's income/(losses) not taxable/(deductible) in calculating taxable income	118	(11,486)	(47,544)	412	(71,856)
- Tax exemption (Note)	—	—	14,056	5,148	10,233
Total income tax credit/(expense)	<u>11,775</u>	<u>(572)</u>	<u>3,628</u>	<u>895</u>	<u>(6,566)</u>

Note: Pursuant to the “Circular on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry”(Cai Shui [2012] No.27) (關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知)(財稅[2012]第27號)), certain subsidiary of the Group was entitled to a two year exemption from income taxes followed by three year of a 50% tax reduction, commencing from the first year when taxable income amount is greater than zero. Certain subsidiary of the Group was qualified for this policy and enjoyed the exemption from income taxes from 1 January 2018.

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14 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 were calculated by dividing the loss/profit for the year/period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

Year ended 31 December			Six months ended 30 June	
2016	2017	2018	2018	2019
RMB	RMB	RMB	RMB	RMB
			(Unaudited)	

Basic (loss)/earnings per share attributable to the ordinary equity holders of the Company	(0.61)	(0.76)	(2.36)	0.36	(3.95)
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(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share adjusts the figures used in the determination of basic (loss)/earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Share options granted to employees, convertible bonds and Preferred Shares are assumed to be potential ordinary shares and have been included in the determination of diluted loss/earnings per share from their dates of issue.

Diluted loss per share for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 is the same with the basic loss per share as potential ordinary share arising from share options, convertible bonds and Preferred Shares were not dilutive as the conversion to ordinary shares would not increase the loss per share.

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The diluted earnings per share for the six months ended 30 June 2018 is as following:

	Six months ended 30 June 2018
	<i>(Unaudited)</i>
Profit for the period attributable to the equity holders of the Company used in calculating basic earnings per share (RMB’000)	21,147
Add: fair value change on convertible bonds and preferred shares (RMB’000)	529
Profit for the period attributable to the equity holders of the Company used in calculating diluted earnings per share (RMB’000)	21,676
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	57,960,000
Adjustments for calculation of diluted earnings per share:	
Options	2,406,000
Preferred shares	43,813,000
Convertible bonds	12,948,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	117,127,000
Diluted earnings per share (RMB per share)	0.19

15 Share-based payments

Since 2011, the Group has granted share option to eligible senior management and employees. For the years ended 31 December 2016, 2017 and 2018 and prior to March 2019, the options granted were vested upon the [REDACTED] of the Company, on the condition that employees remain in service without any performance requirements.

In March 2019, the Group modified the terms and conditions of the previously granted share options mentioned above. The modified [REDACTED] Share option schemes have graded vesting terms, and the share options will vest in tranches upon the [REDACTED] on condition that the employees remain in service without any performance requirements. Such modification has no impact on the subsequent measurement during the remainder of the vesting period, since the modification does not increase the fair value of those previously granted share options.

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After March 2019, new [REDACTED] Share options have graded vesting terms, and the share options will vest in tranches upon the [REDACTED] on condition that the employees remain in service without any performance requirements.

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option (USD)
Outstanding as of 1 January 2016	12,792,600	0.31
Forfeited during the year	(2,939,000)	0.40
Outstanding as of 31 December 2016	9,853,600	0.28
Granted during the year	4,340,000	0.58
Forfeited during the year	(1,334,000)	0.44
Outstanding as of 31 December 2017	12,859,600	0.36
Granted during the year	11,157,000	0.88
Forfeited during the year	(2,194,000)	0.55
Outstanding as of 31 December 2018	21,822,600	0.60
Granted during the period	2,121,000	2.95
Forfeited during the period	(1,369,000)	0.79
Outstanding as of 30 June 2019	<u>22,574,600</u>	<u>0.82</u>

The Group adopted Binomial option-pricing model to determine the fair value of share options. Significant assumptions of share options granted during the Track Record Period are set as below:

	Year ended 31 December		Six months ended 30 June
	2017	2018	2019
Risk-free interest rates	2.20%	2.93%	1.76%~2.56%
Expected volatility	40.00%	38.00%	40.00%
Fair value of ordinary shares (USD)	0.21	0.30	1.04~1.73
Exercise price (USD)	0.58	0.88	2.00~3.30
Dividend yield	0.00%	0.00%	0.00%

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16 Property, plant and equipment

	Right-of use assets- property	Computer equipment	Electrical appliances	Furniture	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016						
Cost	38,296	4,453	762	1,495	4,390	49,396
Accumulated depreciation	(8,602)	(2,570)	(464)	(253)	(595)	(12,484)
Net book amount	29,694	1,883	298	1,242	3,795	36,912
Year ended 31 December 2016						
Opening net book amount	29,694	1,883	298	1,242	3,795	36,912
Additions	15,108	3,791	35	536	2,088	21,558
Disposal	(682)	(15)	—	(49)	(133)	(879)
Depreciation charge (Note 6)	(12,967)	(1,811)	(124)	(371)	(1,974)	(17,247)
Closing net book amount	31,153	3,848	209	1,358	3,776	40,344
As at 31 December 2016						
Cost	50,731	8,209	797	1,956	6,305	67,998
Accumulated depreciation	(19,578)	(4,361)	(588)	(598)	(2,529)	(27,654)
Net book amount	31,153	3,848	209	1,358	3,776	40,344
Year ended 31 December 2017						
Opening net book amount	31,153	3,848	209	1,358	3,776	40,344
Additions	8,091	979	46	418	1,649	11,183
Disposal	(4,384)	(158)	(4)	(420)	—	(4,966)
Depreciation charge (Note 6)	(13,997)	(2,001)	(122)	(410)	(2,612)	(19,142)
Closing net book amount	20,863	2,668	129	946	2,813	27,419
As at 31 December 2017						
Cost	48,927	8,500	670	1,827	7,954	67,878
Accumulated depreciation	(28,064)	(5,832)	(541)	(881)	(5,141)	(40,459)
Net book amount	20,863	2,668	129	946	2,813	27,419
Year ended 31 December 2018						
Opening net book amount	20,863	2,668	129	946	2,813	27,419
Additions	50,115	662	10	233	2,365	53,385
Disposal	—	—	—	(4)	—	(4)
Depreciation charge (Note 6)	(14,508)	(1,941)	(107)	(316)	(1,859)	(18,731)
Closing net book amount	56,470	1,389	32	859	3,319	62,069
As at 31 December 2018						
Cost	99,042	8,510	172	1,892	10,200	119,816
Accumulated depreciation	(42,572)	(7,122)	(140)	(1,033)	(6,880)	(57,747)
Net book amount	56,470	1,388	32	859	3,320	62,069

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	Right-of use assets- property	Computer equipment	Electrical appliances	Furniture	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2019						
Opening net book amount	56,470	1,388	32	859	3,320	62,069
Additions	34,119	324	2	589	1,896	36,930
Disposal	(5,991)	(49)	—	(82)	—	(6,122)
Depreciation charge (Note 6)	(10,246)	(670)	(10)	(224)	(1,010)	(12,160)
Closing net book amount	74,352	993	24	1,142	4,206	80,717
As at 30 June 2019						
Cost	89,303	8,290	174	2,246	12,096	112,109
Accumulated depreciation	(14,951)	(7,297)	(150)	(1,104)	(7,890)	(31,392)
Net book amount	74,352	993	24	1,142	4,206	80,717
(Unaudited) Six months ended 30 June 2018						
Opening net book amount	20,863	2,668	129	946	2,813	27,419
Additions	137	183	8	109	202	639
Disposal	—	—	—	—	—	—
Depreciation charge (Note 6)	(6,729)	(928)	(53)	(208)	(1,083)	(9,001)
Closing net book amount	14,271	1,923	84	847	1,932	19,057
As at 30 June 2018						
Cost	49,064	8,683	678	1,936	8,156	68,517
Accumulated depreciation	(34,793)	(6,760)	(594)	(1,089)	(6,224)	(49,460)
Net book amount	14,271	1,923	84	847	1,932	19,057

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Depreciation expenses have been charged to the consolidated income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Cost of revenue.....	8,810	8,864	10,389	4,226	6,450
Selling and marketing expenses	1,307	1,281	1,968	939	1,300
Administrative expenses.....	6,042	7,353	5,014	3,255	3,849
Research and development expenses	1,088	1,644	1,360	581	561
	<u>17,247</u>	<u>19,142</u>	<u>18,731</u>	<u>9,001</u>	<u>12,160</u>

17 Intangible assets

	Software
	RMB'000
As at 1 January 2016	
Cost	757
Accumulated amortisation.....	<u>(286)</u>
Net book amount.....	<u>471</u>
Year ended 31 December 2016	
Opening net book amount	471
Amortisation charge (Note 6).....	<u>(160)</u>
Closing net book amount.....	<u>311</u>
As at 31 December 2016	
Cost	757
Accumulated amortisation.....	<u>(446)</u>
Net book amount.....	<u>311</u>
Year ended 31 December 2017	
Opening net book amount	311
Additions	827
Amortisation charge (Note 6).....	<u>(225)</u>
Closing net book amount.....	<u>913</u>

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	<u>Software</u>
	<i>RMB’000</i>
As at 31 December 2017	
Cost	1,584
Accumulated amortisation.....	<u>(671)</u>
Net book amount.....	<u>913</u>
Year ended 31 December 2018	
Opening net book amount	913
Amortisation charge (Note 6)	<u>(310)</u>
Closing net book amount.....	<u>603</u>
As at 31 December 2018	
Cost	1,584
Accumulated amortisation.....	<u>(981)</u>
Net book amount.....	<u>603</u>
Six months ended 30 June 2019	
Opening net book amount	603
Additions	418
Amortisation charge (Note 6)	<u>(128)</u>
Closing net book amount.....	<u>893</u>
As at 30 June 2019	
Cost	2,002
Accumulated amortisation.....	<u>(1,109)</u>
Net book amount.....	<u>893</u>
(Unaudited) Six months ended 30 June 2018	
Opening net book amount	913
Amortisation charge (Note 6)	<u>(156)</u>
Closing net book amount.....	<u>757</u>
As at 30 June 2018	
Cost	1,584
Accumulated amortisation.....	<u>(827)</u>
Net book amount.....	<u>757</u>

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Amortisation expenses have been charged to the consolidated income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Administrative expenses	160	225	310	156	128

18 Financial instruments by category

The Group holds the following financial instruments:

Financial assets

	Notes	As at 31 December			As at 30 June
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial assets at amortised cost</i>					
Trade and notes receivables - gross	21	92,052	157,830	337,545	340,158
Deposits and other receivables - gross	20	917	1,034	2,176	5,540
Other non-current assets (Note) .		2,389	3,228	4,641	5,567
Cash and cash equivalents	22	12,828	21,256	40,341	54,152
		<u>108,186</u>	<u>183,348</u>	<u>384,703</u>	<u>405,417</u>

Note: Other non-current assets mainly include deposits paid for lease contracts that will be repaid at the end of the relevant leasing periods.

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Financial liabilities

	Notes	As at 31 December			As at
		2016	2017	2018	30 June
		RMB’000	RMB’000	RMB’000	2019
					RMB’000
<i>Financial liabilities at amortised cost</i>					
Trade and other payables (excluding accrued payroll and welfare and VAT and surcharges).....	26	12,237	16,185	40,802	38,606
Amounts due to related parties..	32	7,669	6,331	—	—
Borrowings	28	9,400	4,050	10,000	13,400
Lease liabilities	27	32,461	20,567	53,762	75,739
<i>Financial liabilities at FVPL</i>					
Hybrid financial instruments	25	125,430	187,567	402,198	684,913
		<u>187,197</u>	<u>234,700</u>	<u>506,762</u>	<u>812,658</u>

19 Deferred income taxes

The gross movements on the deferred income tax are as follows:

	Total
	RMB’000
At 1 January 2016.....	11,260
Credited to the consolidated income statements	<u>11,775</u>
At 31 December 2016.....	<u>23,035</u>
At 1 January 2017.....	23,035
Charged to the consolidated income statements	<u>(572)</u>
At 31 December 2017.....	<u>22,463</u>
At 1 January 2018.....	22,463
Credited to the consolidated income statements	<u>3,628</u>
At 31 December 2018.....	<u>26,091</u>
At 1 January 2019.....	26,091
Charged to the consolidated income statements	<u>(3,885)</u>
At 30 June 2019	<u>22,206</u>

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The movement in deferred income tax assets during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	<u>Tax losses</u>	<u>Accrued expenses</u>	<u>Bad debt provision</u>	<u>Leases</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	10,034	635	4	587	11,260
Credited/(charged) to the consolidated income statements	11,855	(330)	246	4	11,775
At 31 December 2016 . . .	<u>21,889</u>	<u>305</u>	<u>250</u>	<u>591</u>	<u>23,035</u>
At 1 January 2017	21,889	305	250	591	23,035
(Charged)/credited to the consolidated income statements	(1,298)	601	532	(407)	(572)
At 31 December 2017 . . .	<u>20,591</u>	<u>906</u>	<u>782</u>	<u>184</u>	<u>22,463</u>
At 1 January 2018	20,591	906	782	184	22,463
Credited/(charged) to the consolidated income statements	3,640	(749)	729	8	3,628
At 31 December 2018 . . .	<u>24,231</u>	<u>157</u>	<u>1,511</u>	<u>192</u>	<u>26,091</u>
At 1 January 2019	24,231	157	1,511	192	26,091
(Charged)/credited to the consolidated income statements	(4,730)	106	161	578	(3,885)
At 30 June 2019	<u>19,501</u>	<u>263</u>	<u>1,672</u>	<u>770</u>	<u>22,206</u>

At 31 December 2016, 2017 and 2018 and 30 June 2019, the Group did not recognise deferred income tax asset in respect of cumulative tax loss of approximately RMB3,492,000, RMB3,539,000, RMB3,774,000 and RMB3,813,000 respectively. The outcome of their actual utilisation may be different from management’s estimation. These tax losses will expire from 2019 to 2024.

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20 Prepayments, deposits and other receivables

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	1,467	975	2,205	3,036
Prepaid [REDACTED] expenses	—	—	2,661	5,783
Deposits	675	731	2,055	5,383
Input VAT deductible	147	809	1,096	402
Other receivables	242	303	121	157
Less: provision for impairment	(141)	(121)	(148)	(448)
	<u>2,390</u>	<u>2,697</u>	<u>7,990</u>	<u>14,313</u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the fair value of other receivables of the Group, except for the prepayments, prepaid [REDACTED] expenses and input VAT deductible, which are not financial assets, approximated to their carrying amounts.

At 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amounts of prepayments, deposits and other receivables were primarily denominated in RMB.

21 Trade and notes receivables

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	92,052	157,595	337,545	340,158
Less: provision for impairment of trade receivables	(974)	(3,135)	(6,101)	(6,256)
Trade receivables - net	91,078	154,460	331,444	333,902
Notes receivables	—	235	—	—
	<u>91,078</u>	<u>154,695</u>	<u>331,444</u>	<u>333,902</u>

The directors of the Group considered that the carrying amounts of the trade and notes receivables balances approximated their fair values at 31 December 2016, 2017 and 2018 and 30 June 2019.

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The Group generally allows a credit period of 10-70 days to its clients. Aging analysis of trade receivables based on recognition date before provision for impairment is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
- within 3 months	90,492	153,225	320,168	302,859
- 3 months to 6 months	398	1,358	12,491	33,197
- 7 months to 9 months	366	1,051	244	295
- 10 months to 12 months	153	851	118	108
- over 1 year	643	1,110	4,524	3,699
Total	<u>92,052</u>	<u>157,595</u>	<u>337,545</u>	<u>340,158</u>

Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables (Note 3.1).

22 Cash and cash equivalents

The Group:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks	<u>12,828</u>	<u>21,256</u>	<u>40,341</u>	<u>54,152</u>

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	9,282	17,916	23,074	42,543
USD	<u>3,546</u>	<u>3,340</u>	<u>17,267</u>	<u>11,609</u>
	<u>12,828</u>	<u>21,256</u>	<u>40,341</u>	<u>54,152</u>

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The Company:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks	<u>367</u>	<u>6</u>	<u>13,375</u>	<u>10,672</u>

Cash and cash equivalents of the Company were all denominated in USD.

23 Share capital

Authorised:

	Number of ordinary shares	Nominal value of ordinary shares	Number of preferred shares	Nominal value of preferred shares
		USD		USD
At 1 January 2016, 31 December 2016 and 2017...	<u>956,186,758</u>	<u>47,809</u>	<u>43,813,242</u>	<u>2,191</u>
At 1 January 2018	956,186,758	47,809	43,813,242	2,191
Addition	<u>989,233,763</u>	<u>49,462</u>	<u>10,766,237</u>	<u>538</u>
At 31 December 2018	<u>1,945,420,521</u>	<u>97,271</u>	<u>54,579,479</u>	<u>2,729</u>
At 30 June 2019	<u>1,945,420,521</u>	<u>97,271</u>	<u>54,579,479</u>	<u>2,729</u>

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Issued:

	Number of ordinary shares	Nominal value of ordinary shares		Number of preferred shares	Nominal value of preferred shares
		USD	RMB'000		USD
At 1 January 2016, 31 December 2016 and 2017	57,960,000	2,898	18	43,813,242	2,191
At 1 January 2018	57,960,000	2,898	18	43,813,242	2,191
Issue of preferred shares	—	—	—	10,766,237	538
At 31 December 2018 ..	57,960,000	2,898	18	54,579,479	2,729
At 1 January 2019.....	57,960,000	2,898	18	54,579,479	2,729
Issuance	11,592,000	580	4	—	—
Repurchase	(11,592,000)	(580)	(4)	—	—
At 30 June 2019	57,960,000	2,898	18	54,579,479	2,729

On 6 March 2019, the Company repurchased 11,592,000 shares from Ming Feng Holdings Limited (“Ming Feng”) at a total repurchase price of US\$579.60. On the same day, the Company issued 5,796,000 shares and 5,796,000 shares to Wu Fu Min Feng Holdings Limited controlled by Mr. Zhang Feng and Lin Feng Holdings Limited controlled by Ms. Zhang Jianmei, respectively, and each at a subscription price of US\$289.8.

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24 Other reserves

Other reserves of the Group

	Share based compensation reserve	Currency translation differences	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	129	3,019	3,148
Currency translation differences	—	(5,054)	(5,054)
Share-based compensation	76	—	76
At 31 December 2016	<u>205</u>	<u>(2,035)</u>	<u>(1,830)</u>
At 1 January 2017	205	(2,035)	(1,830)
Currency translation differences	—	5,999	5,999
Share-based compensation	213	—	213
At 31 December 2017	<u>418</u>	<u>3,964</u>	<u>4,382</u>
At 1 January 2018	418	3,964	4,382
Currency translation differences	—	(12,858)	(12,858)
Share-based compensation	1,543	—	1,543
At 31 December 2018	<u>1,961</u>	<u>(8,894)</u>	<u>(6,933)</u>
At 1 January 2019	1,961	(8,894)	(6,933)
Currency translation differences	—	(5,123)	(5,123)
Share-based compensation	1,673	—	1,673
At 30 June 2019	<u>3,634</u>	<u>(14,017)</u>	<u>(10,383)</u>

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Other reserves of the Company

	Share based compensation reserve	Currency translation differences	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	125	—	125
Currency translation differences	—	(1,848)	(1,848)
Share-based compensation	21	—	21
At 31 December 2016	<u>146</u>	<u>(1,848)</u>	<u>(1,702)</u>
At 1 January 2017	146	(1,848)	(1,702)
Currency translation differences	—	3,087	3,087
Share-based compensation	18	—	18
At 31 December 2017	<u>164</u>	<u>1,239</u>	<u>1,403</u>
At 1 January 2018	164	1,239	1,403
Currency translation differences	—	(10,398)	(10,398)
At 31 December 2018	<u>164</u>	<u>(9,159)</u>	<u>(8,995)</u>
At 1 January 2019	164	(9,159)	(8,995)
Currency translation differences	—	(4,794)	(4,794)
Share-based compensation	3,470	—	3,470
At 30 June 2019	<u>3,634</u>	<u>(13,953)</u>	<u>(10,319)</u>

25 Hybrid financial instruments

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Convertible bonds	34,236	56,380	—	—
Preferred shares	91,194	131,187	402,198	684,913
Total	<u>125,430</u>	<u>187,567</u>	<u>402,198</u>	<u>684,913</u>

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25.1 Convertible bonds - Group

	<i>RMB’000</i>
At 1 January 2016.....	32,620
Fair value change	<u>1,616</u>
At 31 December 2016.....	<u>34,236</u>
At 1 January 2017.....	34,236
Issuance	15,000
Fair value change	<u>7,144</u>
At 31 December 2017.....	<u>56,380</u>
At 1 January 2018.....	56,380
Fair value change	3,996
Repayment	<u>(60,376)</u>
At 31 December 2018 and 30 June 2019	<u>—</u>

On 28 September 2015, Chengdu Tianfu entered into Bond Investment Agreement with Ma’anshan Zijinghua Equity Investment Co., Ltd. (“Ma’anshan”). According to the agreement, Chengdu Tianfu issued Series C-1 Bond at an issue price of RMB30,000,000, with a maturity period of four years, bearing an interest rate of 10% per annum.

On 3 January 2017, Chengdu Tianfu entered into Phase II Bond Investment Agreement with Ma’anshan. The Series C-2 Bond had an issue price of RMB15,000,000, with a maturity period of four years, bearing an interest rate of 12% per annum.

According to the investment agreements, Ma’anshan had the right to choose to convert the bonds to preferred shares of the Company or Chengdu Tianfu under the premise that the Group removes the VIE structure.

On 5 September 2018, Chengdu Tianfu entered into a Repayment Agreement with Ma’anshan. According to the agreement, Ma’anshan abandoned the conversion right of preferred shares of the Company. As a result, Chengdu Tianfu repaid the Series C-1 Bond and the Series C-2 Bond with a total consideration of RMB60,376,000.

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The key features of the Series C-1 Bond and Series C-2 Bond are as follows:

(i) *Redemption*

Each holder of the Series C-1 Bond and the Series C-2 Bond shall have the right to redeem all or part of the Series C-1 Bond and the Series C-2 Bond at the redemption prices if a qualified [REDACTED] has not occurred. The redemption price of the Series C-1 Bond and the Series C-2 Bond is the sum of the outstanding principal amount plus all accrued and unpaid interests, respectively.

(ii) *Liquidation*

Upon any liquidation, dissolution, or winding up of Chengdu Tianfu, before any distribution or payment made to any ordinary shareholder, the Series C-1 Bond and the Series C-2 Bond holder shall be entitled to receive an amount that is equal to the corresponding principal, plus 10% interests per annum and 12% interests per annum, respectively.

Fair value of convertible bonds:

The Group determined fair value of convertible bonds by the respective fair value of liabilities and equity with the estimated probabilities regarding the scenarios of repayment and conversion. To determine the fair value of the underlying equity value of the Company, the Group applied the market approach (the Back-solve method) for 31 December 2016 and the discount cash flow approach for 31 December 2017. Key assumptions are set as below:

	As at 31 December	
	2016	2017
Risky interest rate.....	13.4%	19.0%
Discount rate.....	N/A	21%
Risk-free interest rate.....	N/A	1.89%
Discount for lack of marketability (“DLOM”).....	N/A	13%
Volatility.....	N/A	40%

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Risky interest rate was estimated by the prevailing yield-to-maturity for similar instruments with similar terms and credit rating, without other embedded derivative features. Probability weight under each of the repayment and conversion scenarios was based on the directors’ best estimates. The underlying equity value of the Company as at 31 December 2016 was determined based on the implied equity value of the Series C-2 Bond issued on 3 January 2017. Discount rate was estimated by weighted average cost of capital of the comparable companies in the same industry as of each appraisal date. Risk-free interest rate was estimated based on the yield of US Sovereign Bond with a maturity life equal to the expected terms as of the appraisal dates. Lack of marketability discount was estimated based on the Finnerty Option Pricing Model. Volatility was estimated based on the historical volatilities of the comparable companies in the same industry with a time horizon close to the expected expiry of the term. In addition to the assumptions adopted above, the Group’s projections of future performance were also factored into the determination of the fair value of convertible bond on 31 December 2017.

If the above key assumption(s) used to determine the fair value of the convertible bonds had increased/decreased by 10% with all other variables held constant, the loss before income tax for the years ended 31 December 2016 and 2017 would have been:

For the year ended 31 December 2016	Increase/(decrease) in the loss before income tax				
	Risky interest rate				
	RMB’000				
Increase 10% of the key assumption					(106)
Decrease 10% of the key assumption					108

For the year ended 31 December 2017	Increase/(decrease) in the loss before income tax				
	Risky interest rate	Discount rate	Risk-free interest rate	DLOM	Volatility
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Increase 10% of the key assumptions	(412)	(103)	(11)	(14)	(4)
Decrease 10% of the key assumptions	422	134	11	14	9

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25.2 Preferred Shares - Group and Company

	Series A Preferred Shares (a)	Series B-1 Preferred Shares (b)	Series B-2 Preferred Shares (c)	Series D Preferred Shares (d)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016.....	35,975	37,254	11,838	—	85,067
Fair value change	945	(306)	(333)	—	306
Currency translation difference .	2,496	2,531	794	—	5,821
At 31 December 2016.....	<u>39,416</u>	<u>39,479</u>	<u>12,299</u>	<u>—</u>	<u>91,194</u>
At 1 January 2017.....	39,416	39,479	12,299	—	91,194
Fair value change	30,886	12,777	3,068	—	46,731
Currency translation difference .	(3,242)	(2,687)	(809)	—	(6,738)
At 31 December 2017.....	<u>67,060</u>	<u>49,569</u>	<u>14,558</u>	<u>—</u>	<u>131,187</u>
At 1 January 2018.....	67,060	49,569	14,558	—	131,187
Issuance	—	—	—	63,420	63,420
Fair value change	97,729	56,361	9,393	29,063	192,546
Currency translation difference .	6,757	4,444	1,059	2,785	15,045
At 31 December 2018.....	<u>171,546</u>	<u>110,374</u>	<u>25,010</u>	<u>95,268</u>	<u>402,198</u>
At 1 January 2019	171,546	110,374	25,010	95,268	402,198
Fair value change	151,646	62,534	17,125	46,499	277,804
Currency translation difference .	2,600	1,139	303	869	4,911
At 30 June 2019	<u>325,792</u>	<u>174,047</u>	<u>42,438</u>	<u>142,636</u>	<u>684,913</u>

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- (a) On 23 March 2012, the Company entered into Series A Preferred Shares Purchase Agreement with LC Fund V, L.P. and LC Parallel Fund V, L.P. (together “LC”). According to the agreement, the Company would issue 13,500,000 preferred shares amounting to USD3,000,000 with a maturity period of five years. Such Series A Preferred Shares were subsequently subdivided into 27,000,000 Series A Preferred Shares on 1 August 2012.

On 24 January 2018, the Company and LC agreed to extend the Series A Preferred Shares to 1 January 2021.

The key features of the Series A Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the amended and restated memorandum of association of the Company on 23 March 2012, each holder of Series A Preferred Shares shall have the right to redeem all or part of the Series A Preferred Shares at the redemption price if a qualified [REDACTED] has not occurred at any time commencing on 1 January 2017.

On 28 September 2015, the Company renewed the memorandum, each holder of Series A Preferred Shares shall have the right to redeem at the redemption price at any time commencing on 28 February 2019.

On 24 January 2018, LC Parallel Fund V, L.P., LC Fund V, L.P. and the Company agreed to extend the commencement date of the relevant redemption period to 1 January 2021. Redemption price of Series A Preferred Shares equals to the original subscription price with interests compounded 12% per annum, plus all accrued or declared but unpaid dividends.

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholders shall be entitled to receive an amount per preferred share that is equal to 150% of the original Series A issue price, plus all mandatory dividend unpaid on each preferred share then held by such preferred shareholders. When liquidation occurs, the order of payback is: Series A Preferred Shares takes precedence over ordinary shares.

- (b) On 27 February 2014, the Company and Macquarie Corporate Holdings Pty Limited (“Macquarie”) entered into Series B-1 Preferred Shares Purchase Agreement. According to the agreement, the Company would issue 13,437,500 Series B-1 Preferred Shares amounting to USD4,300,000 with a maturity period of five years.

On 16 July 2018, Macquarie sold 8,814,464 Series B-1 Preferred Shares to VMS Strategic Investment Fund, L.P. (“VMS”), with total sale price of USD7,500,000. On the same day, the Company entered into Amended and Restated Memorandum with Macquarie and VMS, which extended the expiry date of Series B-1 Preferred Shares to the third anniversary of the Series D Preferred Shares closing date. The Company may make a request to Series B-1 Preferred Shareholders for an extension for two years.

The key features of the Series B-1 Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The initial preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the Share Subscription Agreement of the Company on 27 February 2014, each holder of Series B-1 Preferred Shares shall have the right to redeem all or part of the Series B-1 Preferred Shares at the redemption price if a qualified [REDACTED] has not occurred on the fifth anniversary of the Series B-1 Preferred Shares closing date.

On 16 July 2018, the Company renewed the memorandum that each holder of Series B-1 Preferred Shares shall have the right to redeem at the redemption price at any time commencing on the third anniversary of the Series D Preferred Shares closing date. The Company may make a request to Series B-1 Preferred Shareholders for an extension for two years.

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount equal to 150% of the Series B-1 original issue price, plus all dividends accrued and unpaid with respect thereto per each preferred share. When liquidation occurs, the order of the payback is as follows: Series B-1 Preferred Shares prior to Series A Preferred Shares.

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- (c) On 24 March 2015, the Company entered into Convertible Bond Purchase Agreement with LC and Macquarie. The Series B-2 Bond had an issue price of USD1,500,000, with a maturity period of five years, bearing an interest rate of 10% per annum. On 28 September 2015, all outstanding principal and accrued and unpaid interests of the bond converted into Series B-2 Preferred Shares. Then LC held 2,250,495 Series B-2 Preferred Shares amounting to USD1,050,000 and Macquarie held 1,125,247 Series B-2 Preferred Shares amounting to USD525,000.

On 24 January 2018, the Company and LC agreed to extend the Series B-2 Preferred Shares to 1 January 2021.

On 16 July 2018, the Company entered into Amended and Restated Memorandum with Macquarie, which extended the expiry date of Series B-2 Preferred Shares to the third anniversary of the Series D Preferred Shares issue date. The Company may make a request to Series B-1 Preferred Shareholders for an extension for two years.

The key features of the Series B-2 Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The initial preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the Share Subscription Agreement of the Company on 28 September 2015, each holder of Series B-2 Preferred Shares shall have the right to redeem all or part of the Series B-2 Preferred Shares at the redemption price if a qualified [REDACTED] has not occurred on the fifth anniversary of Series B-1 closing date.

On 24 January 2018, LC and the Company agreed to extend the commencement date of redemption period of Series B-2 Preferred Shares LC held to 1 January 2021.

On 16 July 2018, the Company renewed the memorandum that Macquarie as Series B-2 Preferred Shareholder shall have the right to redeem at the redemption price at any time commencing on the third anniversary of the Series D Preferred Shares closing date. The Company may make a request to Macquarie for an extension for two years.

The redemption price of Series B-2 Preferred Shares equals to the original subscription price with interests compounded 12% per annum, plus all accrued or declared but unpaid dividends.

Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount equal to 150% of the Series B-2 original issue price, plus all dividends accrued and unpaid with respect thereto per each preferred share. When liquidation occurs, the order of the payback is as follows: Series B-2 Preferred Shares together with Series B-1 Preferred Shares prior to Series A Preferred Shares.

- (d) On 16 July 2018, the Company entered into Series D Preferred Shares Purchase Agreement with VMS and North Sea Investment Company Limited (North Sea). According to the agreement, the Company would issue to VMS 7,933,017 Series D Preferred Shares, amounting to USD7,000,000; to North Sea 2,833,220 Series D Preferred Shares, amounting to USD2,500,000.

The key features of the Series D Preferred Shares are as follows:

Conversion

Each preferred share shall be convertible, at the option of the holder of the preferred shares, at any time after the date of issuance of such preferred shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing preferred shares purchase price by the conversion price applicable to such preferred shares. The initial preferred shares conversion price shall initially equal to the preferred shares purchase price, and shall be adjusted from time to time. The initial conversion ratio for preferred shares to ordinary shares shall be 1:1.

Redemption

According to the Share Subscription Agreement of the Company on 16 July 2018, each holder of Series D Preferred Shares shall have the right to redeem all or part of the Series D Preferred Shares at the redemption price if a qualified [REDACTED] has not occurred on the third anniversary of the Series D Preferred Shares closing date.

The Company may make a request to Series D Preferred Shareholders for an extension for two years.

The redemption price of Series D Preferred Shares equals to the original subscription price with interests compounded 10% per annum on original subscription price, plus all accrued or declared but unpaid dividends.

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Liquidation

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment made to any ordinary shareholders, the preferred shareholder shall be entitled to receive an amount equal to 150% of the Series D original issue price, plus all dividends accrued and unpaid with respect thereto per each preferred share. According to Amended and Restated Memorandum signed on 16 July 2018, when liquidation occurs, the order of the payback is as follows: Series D Preferred Shares prior to Series B-2 and Series B-1 prior to Series A.

Fair value of Preferred Shares:

The Group determined fair value of preferred shares by option-pricing method and equity allocation model with the estimated probabilities regarding the scenarios of liquidation, redemption and [REDACTED]. To determine the fair value of the underlying equity value of the Company, the Group applied the market approach (the Back-solve method) for 31 December 2016 and the discount cash flow approach for 31 December 2017, 2018 and 30 June 2019. Key assumptions are set as below:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
Discount rate	N/A	21%	20%	17.5%
Risk-free interest rate	N/A	1.89%	2.60%	2.10%
DLOM	N/A	13%	9%	6%
Volatility	N/A	40%	40%	40%

Probability weight under each of the liquidation, repayment and conversion scenarios was based on the directors’ best estimates. The underlying equity value of the Company as at 31 December 2016 was determined based on the implied equity value of the Series C-2 Bond issued on 3 January 2017. Discount rate was estimated by weighted average cost of capital of the comparable companies in the same industry as of each appraisal date. Risk-free interest rate was estimated based on the yield of US Sovereign Bond with a maturity life equal to the expected terms as of the appraisal dates. Lack of marketability discount was estimated based on the Finnerty Option Pricing Model. Volatility was estimated based on the historical volatilities of the comparable companies in the same industry with a time horizon close to the expected expiry of the term. In addition to the assumptions adopted above, the Group’s projections of future performance were also factored into the determination of the fair value of preferred shares on 31 December 2017, 2018 and 30 June 2019.

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If the above key assumptions used to determine the fair value of Preferred Shares had increased/decreased by 10% with all other variables held constant, the loss before income tax for the years ended 31 December 2017, 2018 and the period ended 30 June 2019 would have been:

For the year ended 31 December 2017	Increase/(decrease) in the loss before income tax			
	Discount	Risk-free		
	rate	interest rate	DLOM	Volatility
	RMB'000	RMB'000	RMB'000	RMB'000
Increase 10% of the key assumptions.	(12,771)	(127)	(1,421)	(1,020)
Decrease 10% of the key assumptions	16,353	128	1,422	1,965
For the year ended 31 December 2018	Increase/(decrease) in the loss before income tax			
	Discount	Risk-free		
	rate	interest rate	DLOM	Volatility
	RMB'000	RMB'000	RMB'000	RMB'000
Increase 10% of the key assumptions.	(29,589)	(146)	(3,074)	(2,852)
Decrease 10% of the key assumptions	37,724	146	3,077	2,876
For the six months ended 30 June 2019	Increase/(decrease) in the loss before income tax			
	Discount	Risk-free		
	rate	interest rate	DLOM	Volatility
	RMB'000	RMB'000	RMB'000	RMB'000
Increase 10% of the key assumptions.	(66,292)	(23)	(4,013)	(6,653)
Decrease 10% of the key assumptions	84,688	23	4,013	(22)

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26 Trade and other payables

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	2,851	3,125	17,393	11,654
Accrued payroll and welfare	76,100	114,078	206,354	178,370
VAT and surcharges	8,045	17,439	32,564	25,840
Risk deposit due to clients	5,185	10,165	8,821	11,363
[REDACTED] expenses				
payables	—	—	7,511	10,447
Others	4,201	2,895	7,077	5,142
	<u>96,382</u>	<u>147,702</u>	<u>279,720</u>	<u>242,816</u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, all trade and other payables of the Group were unsecured and non-interest bearing. The fair value of trade and other payables, except for accrued payroll and welfare and VAT and surcharges which were not financial liabilities, approximated to their carrying amounts due to short maturities.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
Within 6 months	1,934	2,847	17,393	7,879
6 months to 1 year	917	129	—	3,775
1 year to 2 years	—	149	—	—
	<u>2,851</u>	<u>3,125</u>	<u>17,393</u>	<u>11,654</u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amounts of trade and other payables were denominated in RMB.

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27 Lease liabilities

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Minimum lease payments due:				
Within 1 year	12,277	13,779	12,513	21,975
Between 1 and 2 years	14,693	6,414	15,545	19,477
Between 2 and 5 years	8,755	2,357	34,403	44,650
Later than 5 years	164	—	—	—
	35,889	22,550	62,461	86,102
Less: future finance charges	(3,428)	(1,983)	(8,699)	(10,363)
	<u>32,461</u>	<u>20,567</u>	<u>53,762</u>	<u>75,739</u>
Present value of lease liabilities				
Within 1 year	11,950	13,076	12,170	17,868
Between 1 and 2 years	12,934	5,782	14,123	16,499
Between 2 and 5 years	7,468	1,709	27,469	41,372
Later than 5 years	109	—	—	—
	<u>32,461</u>	<u>20,567</u>	<u>53,762</u>	<u>75,739</u>

28 Borrowings

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	3,400	4,050	10,000	13,400
Borrowings from individuals	6,000	—	—	—
	<u>9,400</u>	<u>4,050</u>	<u>10,000</u>	<u>13,400</u>

Note: As at 31 December 2016, bank loans of RMB3.40 million were unsecured, and guaranteed by Mr. Zhang Jianguo and certain subsidiaries of the Group, with annual interest rates of 5.26%. As at 31 December 2017, bank loans of RMB4.05 million were unsecured, and guaranteed by Mr. Zhang Jianguo, Mr. Zhang Feng, Ms. Zhang Jianmei and certain subsidiaries of the Group, with annual interest rates of 5.57%. As at 31 December 2018, bank loans of RMB10.00 million were unsecured, and guaranteed by Mr. Zhang Jianguo and certain subsidiary of the Group, with annual interest rates of 5.57%. In February 2019, the guarantee from Mr. Zhang Jianguo was released. As at 30 June 2019, bank loans of RMB13.40 million were unsecured, and guaranteed by certain subsidiaries of the Group, with annual interest rates of 5.57%.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had unutilised banking facilities of RMB16.60 million, RMB25.95 million, RMB20.00 million and RMB16.60 million respectively.

As at 31 December 2016, borrowings from individuals of RMB6.00 million were unsecured and unguaranteed, with annual interest rate of 12.00%.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the borrowings were repayable within 1 year.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amounts of borrowings were denominated in RMB.

29 Dividends

No dividends have been paid or declared by the Company during each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

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30 Note to consolidated statements of cash flows

Note	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Loss)/profit before income tax	(47,195)	(43,433)	(140,563)	20,252	(222,636)
Adjustments for:					
- Depreciation of property, plant and equipment	16	17,247	19,142	18,731	9,001
- Amortisation of intangible assets	17	160	225	310	156
- Net losses on disposal of property, plant and equipment	10	238	105	18	—
- Share-based payments		76	213	1,543	173
- Net impairment losses on financial assets	3.1(b)	1,010	2,141	2,993	1,768
- Interest income	11	(83)	(45)	(233)	(163)
- Interest expenses	11	2,947	2,960	1,781	1,002
- Fair value losses on hybrid financial instruments	25	1,922	53,875	196,542	529
- Gains on early termination of lease contracts.		(153)	(982)	—	—
Operating (loss)/profit before working capital changes	(23,831)	34,201	81,122	32,718	71,991
Change in working capital:					
- Trade and notes receivables		(16,468)	(65,778)	(179,715)	(43,655)
- Prepayments deposits and other receivables and other non-current assets		3,254	(1,126)	(4,072)	(1,105)
- Trade and other payables		5,805	49,913	135,113	33,474
- Contract liabilities		14,366	3,252	9,295	3,320
Cash (used in)/generated from operations	(16,874)	20,462	41,743	24,752	25,214

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31 Reconciliation from opening to closing balances of liabilities generated from financing activities

This section sets out an analysis of liabilities from financing activities and the movements for each of the periods presented.

	Liabilities from financing activities				
	Bank borrowings	Amount due to related parties	Hybrid financial instruments	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities from financing activities as of 1 January 2016	—	7,219	117,687	31,633	156,539
Cash flows	9,218	(25)	—	(16,598)	(7,405)
Fair value changes of hybrid financial instruments	—	—	1,922	—	1,922
Currency translation difference	—	—	5,821	—	5,821
Other changes (i)	182	475	—	17,426	18,083
Liabilities from financing activities as of 31 December 2016	<u>9,400</u>	<u>7,669</u>	<u>125,430</u>	<u>32,461</u>	<u>174,960</u>
Liabilities from financing activities as of 1 January 2017	9,400	7,669	125,430	32,461	174,960
Cash flows	(5,904)	(1,768)	15,000	(15,815)	(8,487)
Fair value changes of hybrid financial instruments	—	—	53,875	—	53,875
Currency translation difference	—	—	(6,738)	—	(6,738)
Other changes (i)	554	430	—	3,921	4,905
Liabilities from financing activities as of 31 December 2017	<u>4,050</u>	<u>6,331</u>	<u>187,567</u>	<u>20,567</u>	<u>218,515</u>
Liabilities from financing activities as of 1 January 2018	4,050	6,331	187,567	20,567	218,515
Cash flows	5,703	(6,641)	3,044	(18,673)	(16,567)
Fair value changes of hybrid financial instruments	—	—	196,542	—	196,542
Currency translation difference	—	—	15,045	—	15,045
Other changes (i)	247	310	—	51,868	52,425
Liabilities from financing activities as of 31 December 2018	<u>10,000</u>	<u>—</u>	<u>402,198</u>	<u>53,762</u>	<u>465,960</u>

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Liabilities from financing activities					
	Bank borrowings	Amount due to related parties	Hybrid financial instruments	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities from financing activities as of 1 January 2019					
2019	10,000	—	402,198	53,762	465,960
Cash flows	3,122	—	—	(8,319)	(5,197)
Fair value changes of hybrid financial instruments	—	—	277,804	—	277,804
Currency translation difference	—	—	4,911	—	4,911
Other changes (i)	278	—	—	30,296	30,574
Liabilities from financing activities as of 30 June 2019	13,400	—	684,913	75,739	774,052
(Unaudited) Liabilities from financing activities as of 1 January 2018					
2018	4,050	6,331	187,567	20,567	218,515
Cash flows	(4,198)	—	—	(7,478)	(11,676)
Fair value changes of hybrid financial instruments	—	—	529	—	529
Currency translation difference	—	—	1,608	—	1,608
Other changes (i)	148	177	—	813	1,138
Liabilities from financing activities as of 30 June 2018	—	6,508	189,704	13,902	210,114

- (i) Other changes include mainly non-cash movements including addition of lease liabilities and accrual of interest expenses.

APPENDIX I

ACCOUNTANT’S REPORT

32 Related party transactions

(a) Key management personnel compensation

Key management includes directors (executive and non-executive), chief financial officer, vice president and secretary of the board of directors, the compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonus	1,963	2,312	2,764	1,127	1,393
Social insurance and housing fund.	77	77	83	41	42
Share-based payments.	7	6	45	86	91
	<u>2,047</u>	<u>2,395</u>	<u>2,892</u>	<u>1,254</u>	<u>1,526</u>

(b) Names and relationships with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

Name of related parties	Relationship
Mr. Zhang Jianguo	One of the Controlling Equity Holders
Ming Feng	One of the Controlling Equity Holders

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ACCOUNTANT’S REPORT

(c) Significant transactions with related parties

Saved as disclosed elsewhere in this report, the Group has the following significant transactions with related parties:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(i) Loan repayments to related parties					
- Mr. Zhang Jianguo	—	1,500	2,200	—	—
- Mr. Zhang Jianguo's spouse	—	—	3,000	—	—
	—	1,500	5,200	—	—
(ii) Accrued interests due to related parties					
- Mr. Zhang Jianguo	265	220	135	72	—
- Mr. Zhang Jianguo's spouse	210	210	175	105	—
	475	430	310	177	—

(d) Balances with related parties

	As at 31 December			As at 30 June	
	2016	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000	
(i) Amounts due to related parties — non-trade (Note)					
- Mr. Zhang Jianguo	4,214	2,666	—	—	—
- Mr. Zhang Jianguo's spouse	3,455	3,665	—	—	—
	7,669	6,331	—	—	—

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	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
(ii) Amount due from a related party — non-trade				
- Ming Feng	18	18	18	—

Note: As at 31 December 2016 and 2017, borrowings from a related party, Mr. Zhang Jianguo of RMB3.70 million and RMB2.20 million were unsecured and unpledged, with annual interest rate of 7.00%.

As at 31 December 2016 and 2017, borrowings from a related party, Mr. Zhang Jianguo’s spouse of RMB3.00 million and RMB3.00 million were unsecured and unpledged, with annual interest rate of 7.00%.

As at 31 December 2016, 2017 and 2018, amount due from a related party, Ming Feng of RMB18,000 were unsecured, unpledged and interest-free.

33 Commitments

Lease commitments

The Group leases IT-equipment and other small items of office furniture during the Track Record Period. The total commitment amount is not material.

Capital commitments

Significant capital expenditure contracted for, but not recognised as liabilities is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	446	161	352	343
Intangible assets	—	23	—	—

34 Contingent liabilities

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had no material contingent liabilities.

35 Subsequent events

Saved as disclosed elsewhere in this report, there is no other subsequent event subsequent to 30 June 2019.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the other companies comprising the Group in respect of any period subsequent to 30 June 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix II does not form part of the Accountant’s Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this document, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section entitled “Financial Information” in this document and the Accountant’s Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [REDACTED] and the conversion of Preferred Shares on the consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2019 as if the [REDACTED] and the conversion of Preferred Shares had taken place on 30 June 2019.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] and the conversion of Preferred Shares been completed as of 30 June 2019 or any future date.

	Audited Consolidated Net Tangible Liabilities of the Group Attributable to Equity Holders of the Company as at 30 June 2019	Pro forma adjustments		Unaudited Pro Forma Adjusted Net Tangible Assets of the Group Attributable to Equity Holders of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Share	
		Estimated [REDACTED] from the [REDACTED]	Estimated Impact Related to the Conversion of Preferred Shares upon [REDACTED]		(Note 4)	(Note 5)
	(Note 1)	(Note 2)	(Note 3)		(Note 4)	(Note 5)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an [REDACTED] of HK\$[REDACTED] per Share	(532,957)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	(532,957)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible liabilities attributable to equity holders of the Company as at 30 June 2019 is extracted from the historical financial information contained in the Accountant’s Report set forth in Appendix I to this document, which is based on the audited consolidated net liabilities of the Group attributable to equity holders of the Company as at 30 June 2019 of approximately RMB532,064,000 with an adjustment for the intangible assets attributable to equity holders of the Company as at 30 June 2019 of approximately RMB893,000.
2. The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] Shares and the indicative [REDACTED] of HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, being the low end to high end of the indicative [REDACTED] range respectively, after deduction of the [REDACTED] fees and other related expenses (excluding [REDACTED] expenses of approximately RMB[REDACTED] which has been accounted for in the consolidated income statements up to 30 June 2019), and does not take account of any Shares which may be issued upon the exercise of the [REDACTED], or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Schemes.
3. Upon the completion of the [REDACTED], all the Series A, B and D Preferred Shares will be automatically converted into our fully paid and non-assessable ordinary shares on an one-to-one basis. These Preferred Shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company will increase by RMB[REDACTED], being the carrying amounts of the Preferred Shares as of 30 June 2019.
4. The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that a total of [REDACTED] Shares were in issue (including Shares in issue as of the date of this document and those Shares to be issued pursuant to the [REDACTED] and the completion of the conversion of Series A, B and D Preferred Shares into 54,579,479 fully paid and non-assessable ordinary shares on an one-to-one basis assuming that the [REDACTED] and the conversion of Preferred Shares had been completed on 30 June 2019 but taking no account of any shares which may be issued upon the exercise of the [REDACTED], or any Shares which may be issued upon exercise of any options which may be granted under the Share Option Schemes.
5. For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.85458 to HKD1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
6. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW AND TAXATION

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●], 2019 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●], 2019 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$100,000 divided into 2,000,000,000 shares of US\$0.00005 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
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(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the

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fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the [REDACTED] or [REDACTED] of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees’ share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

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- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

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The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

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- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

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The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANIES LAW AND TAXATION

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

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A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the

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total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company’s affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director’s report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company’s affairs as at the end of such period, an auditor’s report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

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2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days’ notice in writing and any extraordinary general meeting shall be called by not less than 14 days’ notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, the Company shall endeavour to cause a notice of such postponement to be placed on the Company’s website and published on the Stock Exchange’s website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

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Where a general meeting is postponed:

- (a) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days’ notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (b) notice of the business to be transacted at the reconvened meeting shall not be required, nor shall any accompanying documents be required to be recirculated, provided that the business to be transacted at the reconvened meeting is the same as that set out in the notice of the original meeting circulated to the members of the Company.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

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- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days’ notice (or on 6 business days’ notice in the case of a rights issue) being given by advertisement published on the Stock Exchange’s website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

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Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote

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on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

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If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

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Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

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If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

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2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on October 14, 2011 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

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The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

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6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

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9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company’s articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of

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merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

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16 Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company’s liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company’s legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed “Documents available for inspection” in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on October 14, 2011. Our registered office is at Maples Corporate Services Limited at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. We have established a principal place of business in Hong Kong at 14/F., Golden Centre, 188 Des Voeux Road Central, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 8, 2019. Ms. Siu has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process is 14/F., Golden Centre, 188 Des Voeux Road Central, Hong Kong.

As a company incorporated in the Cayman Islands, our operations are subject to the Memorandum of Association and the Articles of Association and the Cayman Companies Law. A summary of certain provisions of the Memorandum of Association and the Articles of Association and certain aspects of the Cayman Company Law is set out in Appendix III to this document.

2. Changes in the share capital of our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this document:

- (a) On October 14, 2011, our Company issued one Share with a par value of US\$1.00 to Ming Feng;
- (b) On April 25, 2012, the authorized share capital of our Company was changed to US\$50,000 divided into (i) 486,500,000 Shares with a par value of US\$0.0001 each; and (ii) 13,500,000 Series A Preferred Shares with a par value of US\$0.0001 each;
- (c) On April 25, 2012, our Company issued 917,474 Series A Preferred Shares with a par value of US\$0.0001 each to LC Parallel Fund V, L.P., the shares of which were subdivided into 1,834,948 Series A Preferred Shares with a par value of US\$0.00005 each on 1 August 2012;
- (d) On April 25, 2012, our Company issued 12,582,526 Series A Preferred Shares with a par value of US\$0.0001 each to LC Fund V, L.P., the shares of which were subdivided into 25,165,052 Series A Preferred Shares with a par value of US\$0.00005 each on August 1, 2012;
- (e) On April 25, 2012, the total number of Shares held by Ming Feng was subdivided into 10,000 Shares with a par value of US\$0.0001 each. On the same date, our Company issued 28,970,000 Shares with a par value of US\$ 0.0001 each to Ming Feng;

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- (f) On August 1, 2012, the authorized share capital of our Company was changed to US\$50,000 divided into (i) 973,000,000 Shares with a par value of US\$0.00005 each; and (ii) 27,000,000 Series A Preferred Shares with a par value of US\$0.00005 each;
- (g) On August 1, 2012, the total number of Shares held by Ming Feng was subdivided into 57,960,000 Shares with a par value of US\$0.00005 each;
- (h) On February 27, 2014, the authorized share capital of our Company was changed to US\$50,000 divided into (i) 959,562,500 Shares with a par value of US\$0.00005 each; (ii) 27,000,000 Series A Preferred Shares with a par value of US\$0.00005 each; and (iii) 13,437,500 Series B Preferred shares with a par value of US\$0.00005 each;
- (i) On February 28, 2014, our Company issued 13,437,500 Series B1 Preferred Shares with a par value of US\$0.00005 each to Macquarie Corporate Holdings Pty Limited, 8,814,464 Series B1 Preferred Shares with a par value of US\$0.00005 each of which were transferred to VMS Strategic Investment Fund, L.P. on July 31, 2018;
- (j) On September 28, 2015, the authorized share capital of our Company was changed to US\$50,000 divided into (i) 956,186,758 Shares with a par value of US\$0.00005 each; (ii) 27,000,000 Series A Preferred Shares with a par value of US\$0.00005 each; (iii) 13,437,500 Series B1 Preferred Shares with a par value of US\$0.00005 each; and (iv) 3,375,742 Series B2 Preferred Shares with a par value of US\$0.00005 each ;
- (k) On September 28, 2015, our Company issued 1,125,247 Series B2 Preferred Shares with a par value of US\$0.00005 each to Macquarie Corporate Holdings Pty Limited;
- (l) On September 28, 2015, our Company issued 161,003 Series B2 Preferred Shares with a par value of US\$0.00005 each to LC Parallel Fund V, L.P.;
- (m) On September 28, 2015, our Company issued 2,089,492 Series B2 Preferred Shares with a par value of US\$0.00005 each to LC Fund V, L.P.;
- (n) On July 16, 2018, the authorized share capital of our Company was changed to US\$100,000 divided into (i) 1,945,420,521 Shares with a par value of US\$0.00005 each; (ii) 27,000,000 Series A Preferred Shares with a par value of US\$0.00005 each; (iii) 13,437,500 Series B1 Preferred Shares with a par value of US\$0.00005 each; (iv) 3,375,742 Series B2 Preferred Shares with a par value of US\$0.00005 each; (v) 7,933,017 Series D1 Preferred Shares with a par value of US\$0.00005 each; and (vi) 2,833,220 Series D2 Preferred Shares with a par value of US\$0.00005 each;
- (o) On July 31, 2018, our Company issued 7,933,017 Series D1 Preferred Shares with a par value of US\$0.00005 each to VMS Strategic Investment Fund, L.P.;
- (p) On July 31, 2018, our Company issued 2,833,220 Series D2 Preferred Shares with a par value of US\$0.00005 each to North Sea Investment Company Limited;

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- (q) On March 6, 2019, our Company repurchased 11,592,000 Shares with a par value of US\$0.00005 each from Ming Feng;
- (r) On March 6, 2019, our Company issued 5,796,000 Shares with a par value of US\$0.00005 each to Wu Fu Min Feng;
- (s) On March 6, 2019, our Company issued 5,796,000 Shares with a par value of US\$0.00005 each to Lin Feng; and
- (t) On the [REDACTED], all of our Preferred Shares will be converted into Shares on an one-to-one basis.

Immediately following the completion of the [REDACTED] but without taking into account (i) any Shares which may be issued upon the exercise of the [REDACTED], (ii) any Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes and (iii) any Shares which may be issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme, the issued share capital of our Company will be US\$[REDACTED], divided into [REDACTED] Shares, all fully paid or credited as fully paid.

Save as disclosed above and in “— 3. Resolutions in writing of our Shareholders passed on [●], 2019” in this section, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of our Shareholders passed on [●], 2019

Pursuant to the written resolutions passed by our Shareholders on [●], 2019:

- (a) we approved and adopted the Memorandum of Association and the Articles of Association with effect from the [REDACTED];
- (b) the [REDACTED] was confirmed by our Shareholders to constitute a Qualified [REDACTED] (such term as defined in the shareholders agreement entered into between, among others, Ming Feng, Macquarie, LC Fund V, LC Parallel Fund V, VMS Strategic Investment Fund, L.P., North Sea, the Founders, our Company and Renrui (HK) on July 16, 2018) thereby terminating the shareholder rights granted pursuant to such shareholders agreement;
- (c) subject to the conditions set out in the section headed “Structure and Conditions of the [REDACTED] — Conditions of the [REDACTED]” in this document having been fulfilled or waived:
 - (i) the [REDACTED] and the [REDACTED] were approved and our Directors were authorized to allot and issue the new Shares pursuant to the [REDACTED] and the [REDACTED];

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- (ii) the [REDACTED] was approved and our Directors were authorized to implement the [REDACTED];
- (iii) subject to the restrictions under Rule 10.08 of the Listing Rules, a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by our Directors other than pursuant to (aa) a rights issue, (bb) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares, (cc) the exercise of options granted pursuant to the Share Option Schemes, (dd) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the number of Shares in issue immediately following the completion of the [REDACTED] but without taking into account (i) any Shares which may be issued upon the exercise of the [REDACTED], (ii) any Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes and (iii) any Shares which may be issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme (subject to adjustment in the case of a consolidation or subdivision of the Shares) and (2) the number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in sub-paragraph (iv) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of our next annual general meeting, (II) the expiry of the period within which we are required by any applicable laws or the Articles of Association to hold our next annual general meeting and (III) the date on which the authority given to our Directors by this resolution is revoked or varied by an ordinary resolution of our Shareholders in general meeting (the “**Relevant Period**”);
- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and the requirements of the Listing Rules, not exceeding 10% of the total number of Shares in issue immediately following completion of the [REDACTED] but without taking into account (i) any Shares which may be issued upon the exercise of the [REDACTED], (ii) any Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes and (iii) any Shares which may be issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme (subject to adjustment in the case of a consolidation or subdivision of the Shares), such mandate to remain in effect during the Relevant Period;

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- (d) conditional upon the [REDACTED] granting the [REDACTED] of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which have been or may be granted pursuant to the Share Option Schemes and the commencement of trading of the Shares on the Stock Exchange, the rules of the [REDACTED] Share Option Scheme were approved and adopted and our Directors were authorized to grant options to subscribe for Shares, and to allot, issue and deal with the Shares pursuant to the exercise of the options granted under the [REDACTED] Share Option Scheme, in accordance with the rules of the [REDACTED] Share Option Scheme;
- (e) conditional upon the [REDACTED] granting the [REDACTED] of, and permission to deal in, the Shares to be issued upon the grant of the Awards under the [REDACTED] Share Award Scheme and the commencement of trading of the Shares on the Stock Exchange, the rules of the [REDACTED] Share Award Scheme were approved and adopted and our Directors were authorized to grant Awards under the [REDACTED] Share Award Scheme and to allot and issue, procure the transfer of and otherwise deal with the Shares underlying the Awards granted pursuant to the [REDACTED] Share Award Scheme as and when the Awards vest, in accordance with the terms of the [REDACTED] Share Award Scheme; and
- (f) conditional upon completion of the [REDACTED], each of the Preferred Shares be converted into Shares on an one-to-one basis.

4. Changes in the capital of our subsidiaries

Our subsidiaries during the Track Record Period are referred to in the Accountant's Report set out in Appendix I to this document. The following alterations in the share or registered capital of our subsidiaries have taken place within two years immediately preceding the date of this document:

- (a) On June 3, 2017, the registered capital of Suzhou Renrui Puhui Human Resources Services Co., Ltd. (蘇州人瑞普惠人力資源服務有限公司) was increased from RMB2,000,000 to RMB10,000,000;
- (b) On September 18, 2017, Mr. JG Zhang transferred his 100% equity interest in Liaoning Renrui to Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司) at a consideration of RMB10,000,000;
- (c) On January 30, 2018, the registered capital of Beijing Ruilian was increased from RMB2,000,000 to RMB8,000,000;
- (d) On March 29, 2018, the registered capital of Beijing Ruilian was increased from RMB8,000,000 to RMB10,000,000;
- (e) On August 31, 2018, the registered capital of Chengdu Qicheng WFOE was increased from US\$10,050,000 to US\$13,250,000;
- (f) On December 13, 2018, Shanghai Renrui transferred its 100% equity interest in Hangzhou Renrui Human Resources Services Co., Ltd. (杭州人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;

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- (g) On January 2, 2019, Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司) transferred its 100% equity interest in Liaoning Renrui to Chengdu Tianfu at a total consideration of RMB10,000,000;
- (h) On January 11, 2019, Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司) transferred its 100% equity interest in Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司) to Chengdu Tianfu at a total consideration of RMB12,000,000;
- (i) On February 25, 2019, Chengdu Tianfu transferred its 100% equity interest in Liaoning Renrui Puhui Human Resources Services Co., Ltd (遼寧人瑞普惠人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB20,000,000;
- (j) On February 25, 2019, Chengdu Tianfu transferred its 100% equity interest in Liaoning Renrui Yongdao Human Resources Services Co., Ltd. (遼寧人瑞永道人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB20,000,000;
- (k) On February 26, 2019, Chengdu Tianfu transferred its 100% equity interest in Ningbo Renrui Human Resources Services Co., Ltd. (寧波人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;
- (l) On March 1, 2019, Chengdu Tianfu transferred its 100 % equity interest in Beijing Renrui Human Resources Services Co., Ltd (北京人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB10,000,000;
- (m) On March 1, 2019, Chengdu Tianfu transferred its 100% equity interest in Shangrao Renrui Human Resources Services Co., Ltd. (上饒市人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB10,000,000;
- (n) On March 4, 2019, Chengdu Tianfu transferred its 100% equity interest in Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;
- (o) On March 5, 2019, Chengdu Tianfu transferred its 100% equity interest in Chongqing Renrui Human Resources Services Co., Ltd (重慶人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;
- (p) On March 5, 2019, Chengdu Tianfu transferred its 100% equity interest in Shenzhen Renrui Human Resources Services Co., Ltd. (深圳人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;
- (q) On March 6, 2019, Chengdu Tianfu transferred its 100% equity interest in Xian Renrui Human Resources Services Co., Ltd. (西安人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;
- (r) On March 6, 2019, Chengdu Tianfu transferred its 100% equity interest in Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB10,000,000;

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- (s) On March 7, 2019, Chengdu Tianfu transferred its 100% equity interest in Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB20,000,000;
- (t) On March 8, 2019, Chengdu Tianfu transferred its 100% equity interest in Suzhou Renrui Puhui Human Resources Services Co., Ltd. (蘇州人瑞普惠人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB10,000,000;
- (u) On March 8, 2019, Chengdu Tianfu transferred its 100% equity interest in Suzhou Renrui Yongdao Human Resources Services Co., Ltd. (蘇州人瑞永道人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB2,000,000;
- (v) On March 11, 2019, Chengdu Tianfu transferred its 100% equity interest in Wuhan Huazhong Renrui Human Resources Services Co., Ltd. (武漢華中人瑞人力資源服務有限公司) to Xinan Renrui at a total consideration of RMB10,000,000;
- (w) On March 26, 2019, the registered capital of Xinan Renrui was increased from RMB2,000,000 to RMB2,105,300;
- (x) On March 27, 2019, Renrui (HK) acquired 95% equity interest in Xinan Renrui from Chengdu Tianfu for a consideration of RMB2,000,000;
- (y) On May 21, 2019, the registered capital of Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司) was increased from RMB20,000,000 to RMB50,000,000;
- (z) On June 10, 2019, the registered capital of Shenzhen Renrui Human Resources Services Co., Ltd. (深圳人瑞人力資源服務有限公司) was increased from RMB2,000,000 to RMB20,000,000; and
- (aa) On July 4, 2019, the registered capital of Liaoning Renrui was increased from RMB10,000,000 to RMB20,000,000.

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this document.

5. Corporate reorganization

In order to rationalize our structure and prepare for the [REDACTED], our Group has undertaken several restructuring steps, particulars of which are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Restructuring” in this document.

6. Repurchase of our own securities

As mentioned in “— 3. Resolutions in writing of our Shareholders passed on [●], 2019” in this section, a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed.

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(a) Provisions of the Listing Rules

The Listing Rules permit a company with a primary listing on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution by shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchase by our Company may be made out of the profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities shall disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

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(iv) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of repurchases

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

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(c) Funding of repurchases

In repurchasing Shares, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material and adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this document) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the mandate to such extent as would, in the circumstances, have a material and adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme), could accordingly result in up to [REDACTED] Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiry of the period within which we are required by any applicable laws or the Articles of Association to hold our next annual general meeting; or
- (iii) the date on which the repurchase mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control

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of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) a share purchase agreement entered into by our Company, Macquarie Corporate Holdings Pty Limited, and VMS Strategic Investment Fund, L.P. dated July 16, 2018, pursuant to which Macquarie Corporate Holdings Pty Limited agreed to sell to VMS Strategic Investment Fund, L.P. 8,814,464 Series B1 Preferred Shares and VMS Strategic Investment Fund, L.P. agreed to purchase from Macquarie Corporate Holdings Pty Limited these Series B1 Preferred Shares for a total consideration of US\$7,500,000;
- (b) a share subscription agreement entered into by VMS Strategic Investment Fund, L.P., North Sea Investment Company Limited, Ming Feng, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu, Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang dated July 16, 2018, pursuant to which our Company agreed to issue and sell to VMS Strategic Investment Fund, L.P. and North Sea Investment Company Limited 7,933,017 Series D1 Preferred Shares and 2,833,220 Series D2 Preferred Shares, respectively, and VMS Strategic Investment Fund, L.P. and North Sea Investment Company Limited agreed to subscribe for the Series D1 Preferred Shares and the Series D2 Preferred Shares for a total consideration of US\$7,000,000 and US\$2,500,000, respectively, from our Company;
- (c) a shareholders' agreement entered into between, among others, Ming Feng, Macquarie Corporate Holdings Pty Limited, LC Fund V, L.P., LC Parallel Fund V, L.P., VMS Strategic Investment Fund, L.P., North Sea Investment Company Limited, Mr. JG Zhang, Mr. F Zhang, Ms. JM Zhang, our Company and Renrui (HK) dated July 16, 2018, pursuant to which certain shareholder rights were agreed among the parties;
- (d) a convertible loan repayment agreement entered into by Ma'anshan Zijinghua Shareholding Investment Partnership Corporation (Limited Partnership), Chengdu

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Tianfu, Mr. JG Zhang, Mr. F Zhang and Ms. JM Zhang dated September 5, 2018, which governs the repayment terms and obligations as set out under the convertible loan investment agreement entered into on September 28, 2015 and the convertible loan investment agreement entered into on January 3, 2017;

- (e) a supplemental agreement entered into between, Ma’anshan Zijinghua Shareholding Investment Partnership Corporation (Limited Partnership), Chengdu Tianfu, Chengdu Qicheng WFOE, Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang on March 6, 2019 in relation to Series C Investment;
- (f) a supplemental agreement entered into between LC Fund V, L.P., LC Parallel Fund V, L.P., Macquarie Corporate Holdings Pty Limited, VMS Strategic Investment Fund, L.P., North Sea Investment Company Limited, Ming Feng, Mr. JG Zhang, Mr. F Zhang, Ms. JM Zhang, our Company, Renrui (HK), Chengdu Qicheng WFOE, Chengdu Tianfu, Chengdu Renrui Labour Vocational Skills Training School (成都市人瑞勞動職業技能培訓學校), Chengdu Xinan Renrui Human Resources Services Co., Ltd. (成都西南人瑞人力資源服務有限公司), Ningbo Renrui Human Resources Services Co., Ltd. (寧波人瑞人力資源服務有限公司), Suzhou Renrui Puhui Human Resources Services Co., Ltd. (蘇州人瑞普惠人力資源服務有限公司), Suzhou Renrui Yongdao Human Resources Services Co., Ltd. (蘇州人瑞永道人力資源服務有限公司), Suzhou Renrui Yongdao Human Resources Services Co., Ltd. Quzhou Branch (蘇州人瑞永道人力資源服務有限公司衢州分公司), Shangrao Renrui Human Resources Services Co., Ltd. (上饒市人瑞人力資源服務有限公司), Liaoning Renrui, Liaoning Renrui Yongdao Human Resources Services Co., Ltd. (遼寧人瑞永道人力資源服務有限公司), Liaoning Renrui Yongdao Human Resources Services Co., Ltd. Quzhou Branch (遼寧人瑞永道人力資源服務有限公司衢州分公司), Liaoning Renrui Puhui Human Resources Services Co., Ltd. (遼寧人瑞普惠人力資源服務有限公司), Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力資源服務有限公司), Beijing Renrui Human Resources Services Co., Ltd. Jinan Branch (北京人瑞人力資源服務有限公司濟南分公司), Beijing Ruilian, Shanghai Renrui Internet Technology Co., Ltd. Beijing Branch (上海人瑞網絡科技有限公司北京分公司), Qingdao Renrui Human Resources Services Co., Ltd. (青島人瑞人力資源服務有限公司), Shenzhen Renrui Human Resources Services Co., Ltd. (深圳人瑞人力資源服務有限公司), Guangzhou Renrui Human Resources Services Co., Ltd. (廣州人瑞人力資源服務有限公司), Guangzhou Renrui Human Resources Services Co., Ltd. Foshan Branch (廣州人瑞人力資源服務有限公司佛山分公司), Hangzhou Renrui Human Resources Services Co., Ltd. (杭州人瑞人力資源服務有限公司), Chongqing Renrui Human Resources Services Co., Ltd. (重慶人瑞人力資源服務有限公司), Tianjin Renrui Human Resources Services Co., Ltd. (天津人瑞人力資源服務有限公司), Xian Renrui Human Resources Services Co., Ltd. (西安人瑞人力資源服務有限公司), Wuhan Renrui Human Resources Services Co., Ltd. (武漢人瑞人力資源服務有限公司), Wuhan Renrui Human Resources Services Co., Ltd. Nanning Branch (武漢人瑞人力資源服務有限公司南寧分公司), Wuhan Huazhong Renrui Human Resources Services Co., Ltd. (武漢華中人瑞人力資源服務有限公司), Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司), Shanghai Renrui, Nanjing Renrui Labour Services Co., Ltd. (南京人瑞勞務有限公司), Nanjing Renrui Labour Services Co., Ltd. Qinhuai Branch (南京人瑞勞務有限公司秦淮分公司), Hefei Renrui

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Human Resources Services Co., Ltd. (合肥人瑞人力資源服務有限公司), Guiyang Renrui and Shandong Renrui Human Resources Services Co., Ltd. (山東人瑞人力資源服務有限公司) on March 12, 2019 in relation to Series A Investment, Series B1 Investment, Series B2 Investment and Series D1 and D2 Investment;

- (g) an amended and restated exclusive services agreement dated April 1, 2019 entered into among Chengdu Qicheng WFOE, Chengdu Tianfu, Shanghai Renrui, Beijing Ruilian, Liaoning Renrui, Guiyang Renrui and the Registered Shareholders, pursuant to which Chengdu Qicheng WFOE has the exclusive right to provide or to designate any third party to provide, technical support and consultancy services to Chengdu Tianfu, Shanghai Renrui, Beijing Ruilian, Liaoning Renrui and Guiyang Renrui;
- (h) an amended and restated exclusive option agreement dated April 1, 2019 entered into among Chengdu Qicheng WFOE, the Registered Shareholders and Chengdu Tianfu, pursuant to which the Registered Shareholders unconditionally and irrevocably agreed to grant Chengdu Qicheng WFOE an exclusive, unconditional and irrevocable option for Chengdu Qicheng WFOE or its designated third party to purchase all or part of the equity interests in and/or the relevant assets of Chengdu Tianfu at the lowest price permitted under the PRC laws and regulations;
- (i) an amended and restated exclusive business operation agreement dated April 1, 2019 entered into among Chengdu Qicheng WFOE, Chengdu Tianfu, Shanghai Renrui, Beijing Ruilian, Liaoning Renrui, Guiyang Renrui and the Registered Shareholders, pursuant to which the Registered Shareholders agreed that, unless with the prior written consent from Chengdu Qicheng WFOE or its designated third party, Chengdu Tianfu and its subsidiary entities will not conduct any transaction that may have impact on their assets, businesses, manpower, obligations, rights or the operation of these companies on terms as set out in this amended and restated exclusive business operation agreement;
- (j) an amended and restated share pledge agreement dated April 1, 2019 entered into among Chengdu Qicheng WFOE, the Registered Shareholders and Chengdu Tianfu, pursuant to which the Registered Shareholders unconditionally and irrevocably pledged all of their equity interests in Chengdu Tianfu as the first charge to Chengdu Qicheng WFOE to guarantee performance of the obligations of Chengdu Tianfu and its subsidiary entities as described therein, and the Registered Shareholders under this amended and restated share pledge agreement, amended and restated exclusive services agreement, amended and restated exclusive option agreement, and amended and restated exclusive business operation agreement as summarized in paragraphs (g), (h) and (i) above, respectively;
- (k) a power of attorney dated April 1, 2019 entered into between the Registered Shareholders and Chengdu Qicheng WFOE, pursuant to which the Registered Shareholders appointed Chengdu Qicheng WFOE, or any person designated by Chengdu Qicheng WFOE, as his or her attorney-in-fact to, among others, appoint directors and vote on his or her behalf on all matters of Chengdu Tianfu requiring shareholders' approval under its articles of association and under the relevant PRC laws;

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- (l) a power of attorney dated April 1, 2019 entered into between Chengdu Tianfu and Chengdu Qicheng WFOE, pursuant to which Chengdu Tianfu appointed Chengdu Qicheng WFOE, or any person designated by Chengdu Qicheng WFOE, as its attorney-in-fact to, among others, appoint directors and vote on its behalf on all matters of the subsidiaries of Chengdu Tianfu requiring shareholders’ approval under their respective articles of association and under the relevant PRC laws;
- (m) an amended and restated undertaking letter dated April 1, 2019 made to Chengdu Qicheng WFOE by Ms. Wang Fen, pursuant to which she expressly and irrevocably (i) acknowledged the entry into of the Modified Contractual Arrangements by Mr. JG Zhang; (ii) undertook that she shall not take any actions that are in conflict with purpose and intention of the Modified Contractual Arrangements, including acknowledging that any equity interests held by Mr. JG Zhang do not fall within the scope of their community properties; and (iii) confirmed that her consent and approval is not required for the implementation of the Modified Contractual Arrangements, any amendments thereto or the termination thereof;
- (n) an amended and restated undertaking letter dated April 1, 2019 made to Chengdu Qicheng WFOE by Ms. Wu Qi, pursuant to which she expressly and irrevocably (i) acknowledged the entry into of the Modified Contractual Arrangements by Mr. F Zhang; (ii) undertook that she shall not take any actions that are in conflict with purpose and intention of the Modified Contractual Arrangements, including acknowledging that any equity interests held by Mr. F Zhang do not fall within the scope of their community properties; and (iii) confirmed that her consent and approval is not required for the implementation of the Modified Contractual Arrangements, any amendments thereto or the termination thereof;
- (o) an amended and restated undertaking letter dated April 1, 2019 made to Chengdu Qicheng WFOE by Mr. Chen Bin, pursuant to which he expressly and irrevocably (i) acknowledged the entry into of the Modified Contractual Arrangements by Ms. JM Zhang; (ii) undertook that he shall not take any actions that are in conflict with purpose and intention of the Modified Contractual Arrangements, including acknowledging that any equity interests held by Ms. JM Zhang do not fall within the scope of their community properties; and (iii) confirmed that his consent and approval is not required for the implementation of the Modified Contractual Arrangements, any amendments thereto or the termination thereof;
- (p) a sale and purchase agreement dated April 8, 2019 entered into between Mr. Pan Qiqi and the Company, pursuant to which our Company has agreed to purchase the entire issued shares of Sunflower Human Resources Limited for a total consideration of US\$45,000;
- (q) a trust deed constituting the Harvest China trust entered into by our Company as settlor and Trident Trust Company (HK) Limited as original trustee dated [●], 2019, pursuant to which Trident Trust Company (HK) Limited has agreed to act as the trustee to administer the Mid-senior Level Management [REDACTED] SOS and to hold or deal with the Shares to be issued upon the exercise of the options which have been granted under the Mid-senior Level Management [REDACTED] SOS;

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- (r) a trust deed constituting the Red Luck trust entered into by our Company as settlor and Trident Trust Company (HK) Limited as original trustee dated [●], 2019, pursuant to which Trident Trust Company (HK) Limited has agreed to act as the trustee to administer the Non-managerial Employee [REDACTED] SOS and to hold or deal with the Shares to be issued upon the exercise of the options which have been granted under the Non-managerial Employee [REDACTED] SOS;
- (s) the Deed of Indemnity; and
- (t) the [REDACTED].

2. Material intellectual property rights

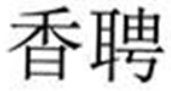

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

Trademarks	Class	Registered owner	Place of registration	Registration number	Expiry date
 香草招聘	9	Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力资源服务有限公司)	PRC	18088111	February 20, 2027
 香草招聘	42	Beijing Renrui Human Resources Services Co., Ltd. (北京人瑞人力资源服务有限公司)	PRC	18087803	February 6, 2027
 天符人瑞 RenruiHR.com	41	Shanghai Renrui	PRC	14192440	September 6, 2025
 1天工作网 1tjob.com	35	Shanghai Renrui	PRC	11932807	June 6, 2024
 香聘	42	Shanghai Renrui	PRC	35345356	August 27, 2029
 香聘	41	Shanghai Renrui	PRC	35345355	August 27, 2029
 香聘	35	Shanghai Renrui	PRC	35345354	August 27, 2029

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Trademarks	Class	Registered owner	Place of registration	Registration number	Expiry date
	9	Shanghai Renrui	PRC	35345353	August 27, 2029
	9, 35, 38, 41 and 42	Renrui (HK)	Hong Kong	304825765	February 7, 2029

As of the Latest Practicable Date, we have filed the following trademark applications which are pending, published and material to our business:

Trademarks	Class	Applicant	Place of application	Application number	Filing date
	9, 35, 38 and 42	Renrui (HK)	Hong Kong	304825729	February 8, 2019
	9, 35, 38 and 42	Renrui (HK)	Hong Kong	304825738	February 8, 2019
	9, 35, 38, 41 and 42	Renrui (HK)	Hong Kong	304825747	February 8, 2019
人瑞人才	42	Shanghai Renrui	PRC	34645280	November 13, 2018
人瑞人才	35	Shanghai Renrui	PRC	34636821	November 13, 2018
人瑞人才	41	Shanghai Renrui	PRC	34627880	November 13, 2018

(b) Copyrights

As of the Latest Practicable Date, we have registered the following copyrights which are material to our business:

Name of copyright	Applicant	Copyright registration number	Place of registration	First release date/Registration Date
Renrui Xiangpin Client Software (Android version) (人瑞香聘客戶端軟件 (Android版) [簡稱：香聘 Android] V1.1)	Shanghai Renrui	2019SR0652421	PRC	June 25, 2019

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Name of copyright	Applicant	Copyright registration number	Place of registration	First release date/ Registration Date
Renrui Xiangpin Map Job Seeking — Application Software (Android) (人瑞香聘地圖找工作應用軟件 (Android) [簡稱：地圖找工作 (Android)] V1.0)	Shanghai Renrui	2019SR0652588	PRC	June 25, 2019
Renrui Lan Jing Ling Direct Recruitment Management Software (人瑞藍精鈴直聘管理軟件 [簡稱：瑞家園藍精鈴軟件 V1.0])	Shanghai Renrui	2019SR0646225	PRC	June 24, 2019
Renrui Xiangpin Client Software (IOS version) (人瑞香聘客戶端軟件 (IOS版) [簡稱：香聘IOS] V1.1)	Shanghai Renrui	2019SR0649875	PRC	June 24, 2019
Renrui Xiangpin Map Job Seeking — Application Software (IOS) (人瑞香聘地圖找工作應用軟件 (IOS) [簡稱：地圖找工作 (IOS)] V1.0)	Shanghai Renrui	2019SR0649849	PRC	June 24, 2019
Renrui Xiangcao Recruitment Real Name Verification — Application Software (Android) 人瑞香草招聘實名認證應用軟件 (Android) [簡稱：實名認證(Android)]V1.0	Shanghai Renrui	2019SR0311755	PRC	November 16, 2018
Renrui Xiangcao Recruitment Real Name Verification — Application Software (HR PC) 人瑞香草招聘實名認證應用軟件(HR PC) [簡稱：實名認證(HR PC)]V1.0	Shanghai Renrui	2019SR0311752	PRC	November 16, 2018
Renrui Xiangcao Recruitment Real Name Verification — Application Software (iOS) 人瑞香草招聘實名認證應用軟件(iOS) [簡稱：實名認證(iOS)]V1.0	Shanghai Renrui	2019SR0311671	PRC	November 16, 2018
Renrui Xiangcao Recruitment Corporate HR Members Mechanism and Prop — Application Software (Android) 人瑞香草招聘企業HR會員機制及道具應用軟件 (Android) [簡稱：企業HR會員機制及道具(Android)]V1.0	Shanghai Renrui	2019SR0311734	PRC	August 28, 2018

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Name of copyright	Applicant	Copyright registration number	Place of registration	First release date/ Registration Date
Renrui Xiangcao Recruitment Corporate HR Members Mechanism and Prop — Application Software (HR PC) 人瑞香草招聘企業HR會員機制及道具應用軟件 (HR PC) [簡稱：企業HR會員機制及道具(HR PC)]V1.0	Shanghai Renrui	2019SR0311739	PRC	August 28, 2018
Renrui Xiangcao Recruitment Corporate HR Members Mechanism and Prop — Application Software (iOS) 人瑞香草招聘企業HR會員機制及道具應用軟件 (iOS) [簡稱：企業HR會員機制及道具(iOS)]V1.0	Shanghai Renrui	2019SR0311748	PRC	August 28, 2018
Renrui Xiangcao Recruitment Corporate HR Members Mechanism and Prop — Application Software (PC) 人瑞香草招聘企業HR會員機制及道具應用軟件 (PC) [簡稱：企業HR會員機制及道具(PC)]V1.0	Shanghai Renrui	2019SR0311750	PRC	August 28, 2018
Renrui Xiangcao Recruitment Map Job Seeking — Application Software (iOS) (人瑞香草招聘地圖找工作應用軟件 (iOS) [簡稱：地圖找工作(iOS)]V1.0)	Shanghai Renrui	2019SR0240592	PRC	May 2, 2018
Renrui Xiangcao Recruitment Map Job Seeking — Application Software (Android)(人瑞香草招聘地圖找工作應用軟件 (Android) [簡稱：地圖找工作 (Andriod)]V1.0)	Shanghai Renrui	2019SR0240588	PRC	May 2, 2018
Renrui Xiangcao Recruitment Appointment Cancellation — Application Software (人瑞香草招聘取消預約系統應用軟件) [簡稱：取消預約]V1.0 .	Shanghai Renrui	2018SR243017	PRC	March 5, 2018

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Name of copyright	Applicant	Copyright registration number	Place of registration	First release date/ Registration Date
Renrui Xiangcao Recruitment Corporate HR Identity Verification System — Application Software (人瑞香草招聘企業HR身份認證系統應用軟件) [簡稱：企業HR身份認證]V1.0	Shanghai Renrui	2018SR242979	PRC	December 16, 2017
Renrui Xiangcao Recruitment Reporting, Feedback Systems — Application Software (人瑞香草招聘訂閱公司系統應用軟件) [簡稱：訂閱公司]V1.0	Shanghai Renrui	2018SR242889	PRC	December 10, 2017
Renrui Xiangcao Recruitment Subscription Company System — Application Software V1.0 (人瑞香草招聘舉報、反饋系統應用軟件V1.0)	Shanghai Renrui	2018SR245315	PRC	October 31, 2017
Renrui Rui Cloud Enhanced Management Software V1.0 (人瑞瑞雲增強管理軟件V1.0)	[Shanghai Renrui]	2018SR069180	PRC	September 30, 2017
Renrui Internal Referral Recruitment Management Software V1.0 (人瑞內部推薦招聘管理軟件V1.0)	[Shanghai Renrui]	2018SR059316	PRC	September 30, 2017
Xiaoxiang Extended No. 1 (小香延展1號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971498 (滬作登字-2017-F-00971498)	PRC	September 15, 2017
Xiaoxiang Extended No. 2 (小香延展2號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971503 (滬作登字-2017-F-00971503)	PRC	September 15, 2017
Xiaoxiang Extended No. 3 (小香延展3號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971505 (滬作登字-2017-F-00971505)	PRC	September 15, 2017
Xiaoxiang Extended No. 4 (小香延展4號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971500 (滬作登字-2017-F-00971500)	PRC	September 15, 2017
Xiaoxiang Extended No. 5 (小香延展5號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971504 (滬作登字-2017-F-00971504)	PRC	September 15, 2017
Xiaoxiang Extended No. 6 (小香延展6號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971501 (滬作登字-2017-F-00971501)	PRC	September 15, 2017
Xiaoxiang Extended No. 7 (小香延展7號)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971499 (滬作登字-2017-F-00971499)	PRC	September 15, 2017
Xiaoxiang Basic (小香基本款)	Shanghai Renrui	Hu Zuo Deng Zi-2017-F-00971502 (滬作登字-2017-F-00971502)	PRC	September 15, 2017

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Renrui Mobile Recruitment Management Software V1.0 (人瑞移動招聘管理軟件V1.0)	Shanghai Renrui	2018SR061113	PRC	August 30, 2017
Renrui Senior Staff Recruitment Management Software V1.0 (人瑞高級人才招聘管理軟件V1.0)	[Shanghai Renrui]	2018SR059477	PRC	June 30, 2017
Renrui Xiangcao Recruitment Direct Chat System — Application Software V1.0 (人瑞香草招聘直聊系統應用軟件V1.0)	Shanghai Renrui Internet Technology Co., Ltd. Beijing Branch (上海人瑞網絡科技有限公司北京分公司)	2018SR127937	PRC	January 20, 2017
Renrui Xiangcao Recruitment Xiangcao Shuo System — Application Software V1.0 (人瑞香草招聘香草說系統應用軟件V1.0)	Shanghai Renrui Internet Technology Co., Ltd. Beijing Branch (上海人瑞網絡科技有限公司北京分公司)	2018SR127953	PRC	September 2, 2016
Xiangcao Recruitment Corporate HR APP (iOS) (香草招聘企業HR APP (iOS端)) [簡稱：香草HR App iOS]V1.0	Shanghai Renrui	2017SR019546	PRC	August 23, 2016
Xiangcao Recruitment WeChat Management Platform (香草招聘微信管理平臺) [簡稱：香草服務號]V2.5	Shanghai Renrui	2016SR381714	PRC	August 23, 2016
Xiangcao Recruitment Corporate HR System (pc) (香草招聘企業HR系統 (pc端)) [簡稱：香草HR pc]V1.1	Shanghai Renrui	2017SR017943	PRC	August 15, 2016
Rui Home WeChat Management Platform V1.0 (瑞家園微信管理平臺V1.0) . .	[Shanghai Renrui]	2016SR382062	PRC	August 1, 2016
Xiangcao Recruitment Operation and Management System (香草招聘運營管理系統) [簡稱：香運系統]V1.6	Shanghai Renrui	2016SR378568	PRC	July 21, 2016
Contract Management System V1.0 (合同管理系統V1.0) . .	[Shanghai Renrui]	2016SR378576	PRC	July 15, 2016
Renrui Xiangcao Recruitment Job Subscription System — Application Software V1.0 (人瑞香草招聘職位訂閱系統應用軟件V1.0)	Shanghai Renrui Internet Technology Co., Ltd. Beijing Branch (上海人瑞網絡科技有限公司北京分公司)	2018SR128407	PRC	May 31, 2016

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Name of copyright	Applicant	Copyright registration number	Place of registration	First release date/Registration Date
Client Relationship Management System (客戶關係管理系統) [簡稱：CRM]V1.0	[Shanghai Renrui]	2016SR378545	PRC	September 10, 2015
Xiangcao Recruitment Client Software (Android version) (香草招聘客戶端軟件 (Android版)) [簡稱：香草招聘]V1.1	Shanghai Renrui	2015SR265413	PRC	August 3, 2015
Xiangcao Recruitment Corporate Recruitment System (香草招聘_企業招聘系統) [簡稱：香草招聘]V1.0	Shanghai Renrui	2015SR255474	PRC	August 3, 2015
Xiangcao Recruitment Client Software (IOS version) (香草招聘客戶端軟件 (IOS版)) [簡稱：香草招聘]V1.1	Shanghai Renrui	2015SR251026	PRC	August 3, 2015
Paperless Attendance System V1.0 (無紙化簽到系統V1.0)	[Shanghai Renrui]	2016SR378579	PRC	February 14, 2014
Renrui Rui Recruiting Human Resources Management Software (人瑞瑞聘人力資源管理軟件) [簡稱：瑞聘]V2.0	[Shanghai Renrui]	2013SR154235	PRC	January 1, 2013
Renrui Group Official Website Platform (人瑞集團官方網站平臺) [簡稱：人瑞官網]V1.0	[Shanghai Renrui]	2016SR234806	PRC	January 1, 2013
1tJob.com Website Platform V3.0 (1天工作網網站平台[簡稱：1天工作網]V3.0)	[Shanghai Renrui]	2014SR060106	PRC	January 1, 2013

(c) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which are material to our business:

Domain Name	Registered owner	Expiry date
xiangpin.online	Shanghai Renrui	March 2, 2029
xiangpin.site	Shanghai Renrui	March 2, 2029
xp.work	Shanghai Renrui	March 1, 2029
xiangpin.mobi	Shanghai Renrui	March 1, 2029
xiangpin.work	Shanghai Renrui	March 1, 2029
xczp.top	Shanghai Renrui Internet Technology Co., Ltd. Beijing Branch (上海人瑞網絡科技有限公司北京分公司)	December 18, 2023
xiangcaozhaopin.com	Shanghai Renrui	July 15, 2023
xiangcaozhaopin.net	Shanghai Renrui	July 15, 2023
xiangcaozhaopin.cn	Shanghai Renrui	July 15, 2023
xiangcaozhaopin.com.cn	Shanghai Renrui	July 15, 2023

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Domain Name	Registered owner	Expiry date
renruihr.com	Shanghai Renhui Human Resources Services Co., Ltd. (上海人惠人力資源服務有限公司)	February 28, 2023
renruihr.cn	Shanghai Renrui	February 28, 2023
tfyetan.com	Shanghai Renrui	June 19, 2021
tfyetan.net	Shanghai Renrui	June 19, 2021
tfyetan.cn	Shanghai Renrui	June 19, 2021
tfyetan.com.cn	Shanghai Renrui	June 19, 2021
renrui.com.cn	Shanghai Renrui	March 11, 2020
xczp.com	Shanghai Renrui	September 14, 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(i) *Interests and short positions of our Directors and chief executives of our Company in the share capital of our Company and its associated corporations*

Immediately following the completion of the [REDACTED], the interests and/or short positions of our Directors and chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange, will be as follows:

(a) *Interests in the Shares*

Name of Director/chief executive of our Company	Nature of interest	Number of Shares upon the [REDACTED]	Approximate percentage of shareholding upon the [REDACTED]
Mr. JG Zhang ^(1, 4)	Interest in Controlled Corporation and interest jointly held with other persons	[REDACTED]	[REDACTED]%
Mr. F Zhang ^(2, 4)	Interest in Controlled Corporation and interest jointly held with other persons	[REDACTED]	[REDACTED]%
Ms. JM Zhang ^(3, 4)	Interest in Controlled Corporation and interest jointly held with other persons	[REDACTED]	[REDACTED]%

Notes:

- (1) Ming Feng is wholly owned by Mr. JG Zhang and under the SFO, Mr. JG Zhang is deemed to be interested in the [REDACTED] Shares held by Ming Feng.

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- (2) Wu Fu Min Feng is wholly owned by Mr. F Zhang and under the SFO, Mr. F Zhang is deemed to be interested in the [REDACTED] Shares held by Wu Fu Min Feng.
- (3) Lin Feng is wholly owned by Ms. JM Zhang and under the SFO, Ms. JM Zhang is deemed to be interested in the [REDACTED] Shares held by Lin Feng.
- (4) Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang entered into an acting in concert deed dated January 18, 2019. As such, Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang together control [REDACTED] Shares, representing approximately [REDACTED]% interest of the total issued share capital of our Company, through Ming Feng, Lin Feng and Wu Fu Min Feng. As a result, each of Mr. JG Zhang, Ms. JM Zhang and Mr. F Zhang is deemed to be interested in such [REDACTED] Shares, representing approximately [REDACTED]% interest in the total issued share capital of our Company.

(b) *Interests in underlying shares of our Company*

Name of Director / chief executive of our Company	Nature of interest	Number of underlying Shares subject to the options granted pursuant to the [REDACTED] Share Option Schemes	Approximate percentage of shareholding upon the [REDACTED]
Mr. F Zhang	Beneficial owner	[REDACTED]	[REDACTED]%
Ms. JM Zhang	Beneficial owner	[REDACTED]	[REDACTED]%

(c) *Interests in associated corporations*

Name of Director/ chief executive of our Company	Name of associated corporation	Number of securities held	Approximate percentage of interests
Mr. JG Zhang	Chengdu Tianfu	N/A ^{Note}	80.00%
Mr. F Zhang	Chengdu Tianfu	N/A ^{Note}	10.00%
Ms. JM Zhang	Chengdu Tianfu	N/A ^{Note}	10.00%

Note: As Chengdu Tianfu is a limited liability company established in the PRC, the percentage of shareholding is determined with reference to the percentage of subscribed registered capital of each shareholder.

(ii) *Interests and short positions of the substantial shareholders in the Shares and underlying shares of our Company or any other member of our Group*

Save as disclosed in the section headed “Substantial Shareholders” in this document, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

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2. Directors’ service contracts and letters of appointment

Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from the [REDACTED], which may be terminated by not less than three months’ notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with our Company for a term of one year with effect from the [REDACTED]. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director’s fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of our Directors has entered into, or has proposed to enter into, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors’ remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019 were approximately RMB1.54 million, RMB1.90 million, RMB2.34 million and RMB1.25 million, respectively.

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, by any of member of our Group to any of our Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending December 31, 2019 to be approximately RMB1.70 million.

4. Disclaimers

- (a) None of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

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- (b) Save in connection with the [REDACTED] and the Modified Contractual Arrangements, none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole.

D. SHARE OPTION SCHEMES

1. [REDACTED] Share Option Schemes

Our Company and Chengdu Tianfu had previously approved and adopted certain employee share incentive plans, pursuant to which our Company and Chengdu Tianfu had granted options to employees and directors of our Group. As a result of the Reorganization, the [REDACTED] Share Option Schemes were conditionally approved and adopted on March 12, 2019, and the options granted under such former share incentive plans were substituted by options under the [REDACTED] Share Option Schemes.

Establishment of the Employee Trusts

On [●], 2019, our Company entered into two trust deeds with Trident Trust Company (HK) Limited (the “**Trustee**”), pursuant to which the Trustee has agreed to act as the trustee to administer each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS, and to hold or deal with, through the relevant holding companies established by the Trustee (i.e. Harvest China Holdings Limited and Red Luck Development Limited, each, a “**HoldCo**”), the Shares to be issued upon the exercise of the options which have been granted under each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS.

The following is a summary of the principal terms of each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS. The terms of each of the Mid-senior Level Management [REDACTED] SOS and the Non-managerial Employee [REDACTED] SOS are not subject to the provisions of Chapter 17 of the Listing Rules as they will not involve the grant of options by us to subscribe for Shares after the [REDACTED].

Mid-senior Level Management [REDACTED] SOS

(a) Purpose

The purpose of the Mid-senior Level Management [REDACTED] SOS is to enable our Group to grant options to the participants as incentives or rewards for their contribution to our Group, in particular, (i) to motivate them to optimize their performance and efficiency for the benefit of our Group; (ii) to attract and retain them whose contributions are or will be beneficial to our Group; and (iii) to encourage them to enhance cooperation and communication amongst team members for the growth of our Group.

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(b) Who may join

Our Board shall have the right to invite and determine any person belonging to any of the following classes of eligible participants, to take up options to subscribe for Shares:

- (i) mid-senior level management member(s) (including directors) of any Group company or any advisors/consultants, or
- (ii) former mid-senior level management member(s) (including former directors) of any Group company who hold unexercised and valid options previously granted by any Group company.

(c) Maximum number of Shares

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Mid-senior Level Management [REDACTED] SOS at any time shall not exceed 17,142,600 Shares.

(d) Performance target

The right to exercise an option is not subject to or conditional upon the achievement of any performance target, unless otherwise stated in the grant by way of a supplemental confirmation letter or any letter.

(e) Vesting period

Any option granted to the participant(s) shall be subject to the vesting period stated herein below. For each of the participant(s), provided that he/she remains in employment with any Group company:

- (i) one-fourth (1/4) of the options granted to him/her shall be vested on the day immediately following the expiry of a period of six months after the [REDACTED];
- (ii) another one-fourth (1/4) of the options so granted shall be vested on the day immediately following the expiry of a period of 12 months after the [REDACTED];
- (iii) another one-fourth (1/4) of the options so granted shall be vested on the day immediately following the expiry of a period of 18 months after the [REDACTED]; and
- (iv) the remaining one-fourth (1/4) of the options so granted shall be vested on the day immediately following the expiry of a period of 24 months after the [REDACTED].

Our Board reserves the right to vary or accelerate the vesting of the options in such circumstances as it, in its absolute discretion, deems appropriate and any such variation or acceleration shall be effective only when set forth in a written instrument executed with the authority of our Board.

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(f) Subscription Price

The subscription price shall be set out in a supplemental confirmation letter or any letter or such other price as our Board may from time to time decide in its absolute discretion and notify to the participant(s) and shall be no less than the par value of the Share in any event and subject to any adjustments to our capital structure made under (p) — Reorganization of capital structure.

(g) Exercise Schedule

Subject to the vesting period under (e) — Vesting period and terms of the Mid-senior Level Management [REDACTED] SOS , an option shall vest unto the grantee and, subject to the maintenance of sufficient public float as required under the Listing Rules and/or any other restriction or prohibition in relation to the exercise of the options under the Listing Rules or any other applicable laws, regulations or rules, may be exercised by the grantee during the eight years from the adoption date of the Mid-senior Level Management [REDACTED] SOS or such period as our Board may in its absolute discretion determine and notify to the participant(s) (the “**Option Period**”) in accordance with the terms of the Mid-senior Level Management [REDACTED] SOS or otherwise provided in a supplemental confirmation letter or any letter of the relevant option.

(h) Exercise of option

An option may be exercised by the grantee (or, as the case may be, by his legal personal representative(s)) giving notice in writing to our Company copying the relevant committee and the relevant trustee in the form set out in the Mid-senior Level Management [REDACTED] SOS or in such other form (and in such other terms, including the form of entitlement representing the vested option(s) that the grantee will receive and the manner in which such entitlement will be distributed to the grantee) as may be approved by our Board from time to time (the “**Exercise Notice**”).

Our Board and/or the relevant committee may in its absolute discretion determine the price per Share for the purpose of selling the Shares on the exercise of an option, the timing of the sale, the manner in which the sale shall be conducted and the terms of the sale, and may from time to time engage an investment adviser/broker or such other adviser in such process as and when our Board and/or the relevant Committee deems desirable (“**Such Terms of Sale**”).

If the grantee elects to sell the Shares in respect of which his duly completed and executed Exercise Notice is given, provided that sufficient Shares have been allotted and issued by our Company to the HoldCo,

- (i) the grantee shall irrevocably confer on our Board and/or the relevant committee all the power to determine Such Terms of Sale as well as any other ancillary powers;
- (ii) our Board and/or the Committee shall notify the relevant trustee of Such Terms of Sale, and HoldCo shall use all reasonable endeavours to facilitate the sale of the said Shares in accordance with Such Terms of Sale as soon as practicable;

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- (iii) if the said Shares cannot be sold in accordance with Such Terms of Sale, our Board and/or the relevant committee shall revise Such Terms of Sale no later than 30 business days after the date of the Exercise Notice and notify the relevant trustee accordingly, following which, HoldCo shall use all reasonable endeavours to facilitate the sale of the said Shares in accordance with Such Terms of Sale as revised as soon as practicable; and
- (iv) following the completion of the sale of the said Shares, HoldCo shall distribute an amount in cash which is equivalent to the sale proceeds of Shares on the exercise of an option, and which amount shall be net of any applicable tax, fees, levies, stamp duty and other charges (the “**Entitlement**”) to the grantee as soon as practicable.

If the grantee elects to have the relevant trustee through HoldCo to hold the Shares in respect of which his duly completed and executed Exercise Notice is given, HoldCo shall hold the said Shares upon trust for the grantee for a period of not more than 24 months (or such longer period as may be agreed between the grantee, our Company and HoldCo) (the “**Holding Period**”). During the Holding Period, the following arrangement applies:-

- (i) the grantee may, by written notice, through our Board and/or the relevant committee, to the relevant trustee, request that the said Shares be sold and shall irrevocably confer on our Board and/or the relevant committee all the power to determine Such Terms of Sale as well as any other ancillary powers;
- (ii) Our Board and/or the relevant committee shall in its absolute discretion determine Such Terms of Sale and shall notify the relevant trustee accordingly, and HoldCo shall use all reasonable endeavours to facilitate the sale of the said Shares in accordance with Such Terms of Sale as soon as practicable;
- (iii) if no such notice has been received by our Board and/or the relevant committee from the grantee after the expiry of the Holding Period, HoldCo shall facilitate the sale of the said Shares in accordance with Such Terms of Sale as determined by our Board and/or the relevant committee as soon as practicable and distribute the Entitlement to the grantee as soon as practicable following the completion of the sale of the said Shares;
- (iv) when the Entitlement is distributed to the grantee, HoldCo shall, at the same time, distribute to the grantee any and all dividend, cash income or financial interest in respect of or arising from the said Shares so held during the Holding Period; and
- (v) the relevant trustee’s fees and/or costs for holding the said Shares shall be borne solely by our Company.

The options do not carry any right to vote at general meetings of our Company. Notwithstanding that HoldCo is the legal registered owner of the relevant Shares following the exercise of the options by each grantee, the Trustee shall procure HoldCo to abstain from exercising the voting rights attached to such Shares.

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(i) Non-transferability of the options

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or purport to do any of the foregoing. Any breach of the foregoing shall entitle our Company to cancel the relevant grantee's outstanding options in whole or in part without any compensations.

(j) Lapse of an option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:-

- (i) the expiry of Option Period;
- (ii) the expiry of any of the other periods referred to under (k) — Rights on ceasing employment, (l) — Rights on death, (m) — Rights on general offer, (n) — Rights on winding up, and (o) — Rights on a compromise or arrangement (as applicable);
- (iii) subject to (n) — Rights on winding up, the earliest of the close of business on the second business day prior to the general meeting referred to in (n) — Rights on winding up or the date of commencement of the winding-up of our Company;
- (iv) save as otherwise provided in (o) — Rights on a compromise or arrangement or by the Court in relation to the scheme in question, upon the sanctioning pursuant to the Companies Law by the Grand Court of the Cayman Islands of a compromise or arrangement between our Company and its members or creditors for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies;
- (v) the date on which the grantee ceases to be an employee or officer (including any director), of any Group company by reason of the termination of his employment or office on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been in material breaches of confidentiality agreement, non-compete obligations or any other agreements or policies of any Group company (if any), or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer or principal would be entitled to terminate his employment or office at common law or pursuant to any applicable laws or under the grantee's service contract, terms of office or arrangement with the relevant Group company (including but not limited to the following grounds: (i) having served as director, consultant or part-time consultant of another human resource company while being employed by any Group company; (ii) having gained personal benefit(s) or having profited from his position in any Group company through any transaction with any client or supplier of any Group company; (iii) having disclosed to any competitor of the Group company any information/resources of any business, client,

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product or technology of any Group company; (iv) having done any act that grossly damaged the reputation or interests of any Group company; (v) having grossly violated the memorandum and articles of association of any Group company or the law; and (vi) having been terminated from his employment or office by any Group company due to his violation of its rules and regulations or the law). A resolution of our Board or the board of directors of the relevant Group company to the effect that the employment or office of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph or that one or more of the grounds specified in this paragraph has arisen in respect of the employment or office of a grantee shall be conclusive and binding on the grantee and, where appropriate, the grantee’s legal personal representative(s); or

- (vi) where the grantee commits a breach of (i) — Non-transferability of the options, the date on which our Board shall exercise our Company’s right to cancel the option.

Notwithstanding the aforesaid, in each case, our Board may in its absolute discretion decide that any option shall not lapse or shall be subject to such conditions or limitations as our Board may decide.

(k) Rights on ceasing employment

If the grantee of an option ceases to be an employee or officer (including any director) of any Group company for any reason, other than his death or the termination of his employment or office on one or more of the grounds specified under (j)(v), then, (i) any which has not become vested and exercisable as at the date of cessation of such employment shall lapse; and (ii) the grantee may exercise any option to the extent exercisable as at the date of cessation of such employment and to the extent not already exercised until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of one month following the date of cessation of such employment.

(l) Rights on death

If the grantee of an option ceases to be to be an employee or officer (including director) of any Group company by reason of death, any option which has not become vested and exercisable as at the date of the grantee’s death shall lapse; and (ii) the legal personal representative(s) of the grantee may exercise any option to the extent exercisable as at the date of the grantee’s death and to the extent not already exercised until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 12 months from the date of the grantee’s death (or such longer period as our Board may determine).

(m) Rights on general offer

In the event a general offer (other than by way of scheme of arrangement) is made to all holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional during the Option Period of the relevant option, our Company shall forthwith give notice thereof to the grantee (or his legal personal representative(s)) and the

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grantee or his legal personal representative(s) shall be entitled to exercise the option in full or in part (whether the option has become vested or not and to the extent not already exercised) at any time within such period as shall be notified by our Company, after which the option shall lapse.

In the event a general offer by way of a scheme of arrangement is made to all holders of Shares and the scheme is approved by the necessary number of holders of and percentage value of Shares at the requisite meetings, our Company shall forthwith give notice thereof to all grantees (or their legal personal representatives) and each grantee or legal personal representative shall be entitled to exercise the option in full or in part (whether the option has become vested or not and to the extent not already exercised) at any time within such period as shall be notified by our Company, after which the option shall lapse.

(n) Rights on winding up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise his option in full or in part (whether the option has become vested or not and to the extent not already exercised) at any time no later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(o) Rights on a compromise or arrangement

In the event a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which our Company was incorporated, our Company shall give notice to all the grantees on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee (or his legal personal representative(s)) may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by our Company no later than two business days prior to the proposed meeting), exercise the option in full or in part (whether the option has become vested or not and to the extent not already exercised) and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

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With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) Reorganization of capital structure

In the event of any capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of the share capital of our Company and/or bonus issue by our Company, corresponding adjustments (if any) shall be made (other than an issue of Shares as consideration in respect of a transaction) in:

- (i) the number of Shares subject to options so far as unexercised;
- (ii) the subscription price in relation to each outstanding option; and/or
- (iii) the method of exercise of the options.

(q) Conditions of the Mid-senior Level Management [REDACTED] SOS

The Mid-senior Level Management [REDACTED] SOS is subject to the following conditions subsequent: (a) the Stock Exchange granting the [REDACTED] of and permission to deal in, any Shares which may fall to be allotted and issued pursuant to the exercise of options under the Mid-senior Level Management [REDACTED] SOS; and (b) the commencement of the [REDACTED]. If such conditions subsequent are not satisfied within twenty-four (24) months after the adoption date of the Mid-senior Level Management [REDACTED] SOS, the Mid-senior Level Management [REDACTED] SOS shall immediately determine.

Non-managerial Employee [REDACTED] SOS

Save for the following terms, all of the terms of the Non-managerial Employee [REDACTED] SOS are substantially the same with that of the Mid-senior Level Management [REDACTED] SOS.

(a) Who may join

Our Board shall have the right to invite and determine any person belonging to any of the following classes of eligible participants, to take up options to subscribe for Shares:

- (i) non-managerial employee(s) of any Group company, or
- (ii) former non-managerial employee(s) of any Group company who hold unexercised and valid options previously granted by any Group company.

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(b) Exercise of option

An option may be exercised by the grantee (or, as the case may be, by his legal personal representative(s)) giving notice in writing to our Company copying the relevant committee and the relevant trustee in the form set out in the Non-managerial Employee [REDACTED] SOS or in such other form as may be approved by our Board from time to time.

(c) Vesting period

Any option granted to the participant(s) shall be subject to the vesting period stated herein below. For each of the participant(s), provided that he/she remains in employment with any Group company:

- (i) one-third (1/3) of the options granted to him/her shall be vested on the day immediately following the expiry of a period of six months after the [REDACTED];
- (ii) another one-third (1/3) of the options so granted shall be vested on the day immediately following the expiry of a period of 12 months after the [REDACTED]; and
- (iii) another one-third (1/3) of the options so granted shall be vested on the day immediately following the expiry of a period of 18 months after the [REDACTED].

Our Board reserves the right to vary or accelerate the vesting of the options in such circumstances as it, in its absolute discretion, deems appropriate and any such variation or acceleration shall be effective only when set forth in a written instrument executed with the authority of our Board.

(d) Maximum number of Shares

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Non-managerial Employee [REDACTED] SOS at any time shall not exceed 5,972,262 Shares.

Outstanding options granted under the [REDACTED] Share Option Schemes

As of the Latest Practicable Date, options to subscribe for an aggregate of [22,904,600] Shares, representing approximately [REDACTED]% of the enlarged issued shares of our Company immediately following the completion of the [REDACTED] i.e. [REDACTED] Shares (but without taking into account (i) any Shares which may be issued upon the exercise of the [REDACTED], (ii) any Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes and (iii) any Shares which may be issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme), are outstanding.

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As of the Latest Practicable Date, none of the options granted under the [REDACTED] Share Option Schemes has been exercised. No further options will be granted under the [REDACTED] Share Option Schemes after the [REDACTED].

We have applied for, and [have been granted] an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules in connection with the information of the options granted under the [REDACTED] Share Option Schemes. For further details, please see the section headed “Waivers and Exemptions from Strict Compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the [REDACTED] Share Option Schemes” in this document.

The options have been granted based on the performance of the option holders who have made important contributions to the long term growth and profitability of our Group. As of the Latest Practicable Date, there were altogether [230] option holders comprising two Directors, one member of our senior management (other than Directors) and [227] other employees, advisors/consultants and former employees of our Group. Details of the options granted under the [REDACTED] Share Option Schemes as of the Latest Practicable Date are set forth as follows:

Name of grantee	Name of [REDACTED] Share Option Scheme involved	Position held with our Group	Address	Exercise price	Number of Shares under the [REDACTED] Share Option Schemes outstanding	Date of grant ⁽¹⁾	Vesting period	Approximate percentage of shareholding immediately following completion of the [REDACTED] i.e. [REDACTED] Shares ⁽²⁾
Directors								
Mr. F Zhang . .	Mid-senior Level Management [REDACTED] SOS	Executive Director and Chief Operating Officer	Room 1201, Building 9 No. 89 Furong Road (East) Qujiang New District, Xi'an Shanxi Province, China	USD0.1111	455,800	January 31, 2013 and February 20, 2013	One-fourth of options vested on the day immediately following the expiry of a period of six months, 12 months, 18 months and 24 months after the [REDACTED], respectively	[REDACTED]%
Ms. JM Zhang .	Mid-senior Level Management [REDACTED] SOS	Executive Director and Sales Vice-President	Room 1, Floor 1 Unit 2, Building 45 Yifeng Xincheng Huilong Shequ Zhonghe Street Sichuan, China	USD0.1111 - USD0.88	928,800	January 31, 2013, February 20, 2013 and October 16, 2018	One-fourth of options vested on the day immediately following the expiry of a period of six months, 12 months, 18 months and 24 months after the [REDACTED], respectively	[REDACTED]%
Sub-total: . . .					1,384,600			[REDACTED]%

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Name of grantee	Name of [REDACTED] Share Option Scheme involved	Position held with our Group	Address	Exercise price	Number of Shares under the [REDACTED] Share Option Schemes outstanding	Date of grant ⁽¹⁾	Vesting period	Approximate percentage of shareholding immediately following completion of the [REDACTED] i.e. [REDACTED] Shares ⁽²⁾
Senior management and connected persons of our Company								
Mr. Li Wenjia	Mid-senior Level Management [REDACTED] SOS	Chief Financial Officer	Room 801, No. 26 Lane 99 Guangzhong Wat Road Zhabei Qu Shanghai, China	USD0.32 - USD0.88	564,000	January 24, 2015, April 24, 2017 and March 27, 2018	One-fourth of options vested on the day immediately following the expiry of a period of six months, 12 months, 18 months and 24 months after the [REDACTED], respectively	[REDACTED]%
Sub-total:					564,000			[REDACTED]%
Other employees, advisors/consultants and former employees								
[227] other employees, advisors/consultants and former employees of our Group	Mid-senior Level Management [REDACTED] SOS and Non-managerial Employee [REDACTED] SOS	—	—	USD0.1111 - USD[2.80]	[20,956,000]	December 1, 2012 - [July 31, 2019]	Mid-senior Level Management: one-fourth of options vested on the day immediately following the expiry of a period of six months, 12 months, 18 months and 24 months after the [REDACTED], respectively Non-managerial Employee: one-third of options vested on the day immediately following the expiry of a period of six months, 12 months and 18 months after the [REDACTED], respectively	[REDACTED]%
Total:					[22,904,600]			[REDACTED]%

Notes:

- (1) This represents the date on which the options under the relevant former share incentive plans were granted, which also apply to the options granted under the [REDACTED] Share Option Schemes.
- (2) Assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme.

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The options granted under the [REDACTED] Share Option Schemes as of the Latest Practicable Date represent approximately [REDACTED]% of the enlarged issued shares of our Company immediately following the completion of the [REDACTED] i.e. [REDACTED] Shares (but without taking into account (i) any Shares which may be issued upon the exercise of the [REDACTED], (ii) any Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Schemes and (iii) any Shares which may be issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). If all the options granted under the [REDACTED] Share Option Schemes up to the Latest Practicable Date are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately [REDACTED]%, calculated with reference to the issued shares of our Company on the [REDACTED] before such allotment and issue i.e. [REDACTED] Shares. Given the impact of the exercise of the options granted under the [REDACTED] Share Option Schemes on loss per Share are anti-dilutive for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, the diluted loss per Share was therefore equal to the basic loss per Share, i.e. RMB(0.61), RMB(0.76), RMB(2.36) and RMB(3.95) for the same periods.

An application has been made to the [REDACTED] for the [REDACTED] of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which have been granted pursuant to the [REDACTED] Share Option Schemes.

2. [REDACTED] Share Option Scheme

The following is a summary of the principal terms of the [REDACTED] Share Option Scheme conditionally approved and adopted by our Shareholders on [●], 2019.

(a) Purpose of the [REDACTED] Share Option Scheme

The [REDACTED] Share Option Scheme is a share incentive scheme and is established to enable our Group to (1) recognise and acknowledge the contributions that eligible participants have (or may have) made or may make to our Group (whether directly or indirectly); (2) attract and retain and appropriately remunerate the best possible quality of employees and other eligible participants; (3) motivate the eligible participants to optimise their performance and efficiency for the benefit of our Group; (4) enhance its business, employee and other relations; and/or (5) retain maximum flexibility as to the range and nature of rewards and incentives which our Group can offer to eligible participants.

(b) Eligible participants to the [REDACTED] Share Option Scheme

Eligible participants mean (1) any employee or officer employed by any member of our Group or an affiliate (whether full time or part time) and any of his/her close associates; (2) any director or proposed director of any member of our Group or any company which is an affiliate and their respective close associates; and (3) any consultant, professional, customer, supplier, agent, franchisee, partner, adviser or contractor of any member of our Group or any of the affiliates and their respective close associates, who the Board in its absolute discretion determines to be qualified to be (or, where applicable, to continue to be qualified to be) an eligible participant.

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(c) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the [REDACTED] Share Option Scheme and other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the [REDACTED] (the “**Scheme Mandate Limit**”) unless approved by our Shareholders. Options lapsed in accordance with the terms of the [REDACTED] Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Scheme Mandate Limit may be refreshed if so approved by our Shareholders at general meeting from time to time provided always that the Scheme Mandate Limit so refreshed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by our Shareholders at general meeting (the “**Refreshed Limit**”). Upon such renewal, all options granted under the [REDACTED] Share Option Scheme and other schemes of the Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the [REDACTED] Share Option Scheme or other schemes of the Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Refreshed Limit. A circular must be sent to our Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.

The Board may seek separate approval by our Shareholders at general meeting to grant options beyond the Scheme Mandate Limit or the Refreshed Limit provided that the options in excess of the Scheme Mandate Limit or the Refreshed Limit are granted only to the eligible participants specifically identified by the Company before such approval is sought and the Company must issue a circular to our Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such eligible participants.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the [REDACTED] Share Option Scheme and other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time. Notwithstanding anything contrary to the terms of the [REDACTED] Share Option Scheme, no options may be granted under the [REDACTED] Share Option Scheme or other schemes if this will result in the said 30% limit being exceeded.

(d) Maximum entitlement of a grantee

No option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the [REDACTED] Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to, among others, (1) approval of our Shareholders at general meeting, with such eligible participant and his close associates (or his associates if such eligible participant is a connected person of the Company) abstaining from voting; (2) a circular in relation to the

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proposal for such further grant having been sent by the Company to our Shareholders with such information from time to time as required by the Listing Rules; and (3) the number and terms (including the Exercise Price (as defined in paragraph (f) below) of the options to be granted to such proposed grantee shall be fixed before the shareholders’ approval mentioned in (1) above.

(e) Performance target

Subject to the provisions of the [REDACTED] Share Option Scheme and applicable laws, the Board may, on a case-by-case basis and at its discretion when making an offer, impose any conditions, restrictions or limitations in relation thereto in addition to those expressly set forth in the [REDACTED] Share Option Scheme as it may think fit (which shall be stated in the offer letter) including, vesting period and conditions, restrictions or limitations relating to the achievement of operating or financial targets; and if applicable, the satisfactory performance of certain obligations by the grantee as the Board may determine from time to time.

(f) Exercise price

Subject to any adjustment made pursuant to paragraph (o) below, the exercise price in respect of any particular option (the “**Exercise Price**”) shall be a price determined by the Board and stated in the offer letter, and shall not be less than the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer, which must be a Business Day;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five Business Days immediately preceding the date of the offer (where our Company has been listed for less than five Business Days, the new issue price shall be used as the closing price for any Business Day falling within the period before the [REDACTED]); and
- (iii) the nominal value of a Share prevailing on the date of the offer.

(g) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the [REDACTED] Share Option Scheme.

(h) Options granted to directors or substantial shareholders of our Company

Any grant of options to any director, chief executive or substantial shareholder of our Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of such options).

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Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or their respective associates would result in the Shares issued and to be issued upon exercise of the options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by our Shareholders. The Company must send a circular to our Shareholders containing such information as required under the applicable laws. The relevant grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such options must be taken on a poll in accordance with the Listing Rules.

(i) Grant offer letter and notification of grant of options

An offer shall be made to an eligible participant by an offer letter, which shall specify the following: (1) the name and address of the eligible participant; (2) the number of Shares to which the option to be granted to the eligible participant relates; (3) the procedure for acceptance of the option and the last date by which the offer must be accepted; (4) the period within which a grantee may exercise of the option pursuant to the terms and conditions of the [REDACTED] Share Option Scheme to be notified by the Board to each grantee which the Board may in its absolute discretion determine, save that such period shall not be more than ten (10) years from the commencement date in respect of any particular option (“**Exercise Period**”), the Exercise Price and the manner of payment of the Exercise Price; and (5) such other terms and conditions of the offer as may be imposed by the Board at its discretion either on a case-by-case basis or generally as are not inconsistent with the [REDACTED] Share Option Scheme; and (6) a statement requiring the eligible participant to undertake to hold the option on and subject to the terms on which it is to be granted and to be bound by the provisions of the [REDACTED] Share Option Scheme.

An offer shall be deemed to have been accepted when the Company receives a duplicate offer letter duly signed from the grantee together with a remittance of RMB1.00 (or such other nominal sum in any currency as the Board may determine) in favour of the Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the option shall be deemed to have been granted as from the date on which it was offered to the relevant eligible participant. No offer shall be capable of or open for acceptance after the expiry of ten (10) years from the effective date of the [REDACTED] Share Option Scheme.

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Any offer may be accepted for a number of Shares less than which is offered, provided that it is accepted in respect of a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof. To the extent that the offer is not accepted in the manner set out in the offer letter and cannot be accepted by an eligible participant who ceases to be qualified as an eligible participant after the offer has been made, the offer shall be deemed to have been irrevocably declined and lapsed automatically without notice.

(j) Restriction of grant of options

The Board shall not make any offer:

- (i) after inside information (as defined under the SFO) has come to its knowledge until such inside information has been announced by our Company pursuant to the relevant requirements of any applicable laws and regulations of Hong Kong or other relevant jurisdictions (including but not limited to the Listing Rules); or
- (ii) during the period commencing one month immediately before the earlier of:
 - I. the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
 - II. the deadline for our Company to announce its result for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, or during any period of delay in publication of a results announcement.

(k) Time of exercise of an option

Subject to the relevant Exercise Period and the other terms and conditions of the offer, an option shall be exercised in whole or in part by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

(l) Cancellation of options

Any option may be cancelled in whole or in part and at any time:

- (i) if agreed between the Company and the relevant grantee; or
- (ii) if the Board offers to grant to the grantee replacement options of equivalent value of the options being cancelled; or

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- (iii) if the Company pays or procures to be paid to the grantee an amount equal to the cash value of the options being cancelled as at the date of cancellation as determined by the Board by reference to the difference between the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the date of the cancellation and the Exercise Price.

Where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made under a scheme with available unissued options (excluding for this purpose all cancelled options) and in compliance with the terms of the [REDACTED] Share Option Scheme.

(m) Lapse of an option

An option (to the extent not already exercised) shall lapse and not be exercisable on the earliest of:

- (i) the expiry of the Exercise Period;
- (ii) the expiry of any of the periods referred to in paragraphs (p) and (q) below;
- (iii) subject to paragraph (r) below, the date of the commencement of the winding-up of our Company;
- (iv) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph (s) below;
- (v) in the case of the grantee being an employee or officer or any of his/her close associates, the date on which the relevant employee ceases to be an employee on the grounds that he has been guilty of serious misconduct, or there exist grounds allowing summary dismissal under the relevant employment contract or under common law, or he has been convicted of any criminal offence involving his integrity or honesty (“**Culpable Termination**”);
- (vi) the occurrence of bankruptcy of the grantee, unless otherwise determined to the contrary by the Board;
- (vii) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise determined to the contrary by the Board; and
- (viii) the date on which the Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria in accordance with the terms of the [REDACTED] Share Option Scheme.

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(n) Voting and dividend rights

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or Shares that are the subject of options that have not been exercised.

(o) Effect of alteration in the share capital of our Company

In the event of any alteration in the capital structure of the Company while any option remains exercisable, and such event arises from, including a capitalization issue, rights issue, subdivision or consolidation of Shares, or reduction of capital of the Company (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party), the Board may, if it deems appropriate, direct that such corresponding adjustments (if any) be made in:

- (i) the number of Shares subject to the options so far as unexercised; and/or
- (ii) the Exercise Price; and/or
- (iii) the number of Shares subject to the [REDACTED] Share Option Scheme,

as the auditors or an independent financial adviser appointed by our Company for such purpose shall certify in writing that the adjustments satisfy the requirements, among others, that the adjustments must give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value. The capacity of the auditors or the independent financial adviser is that of experts and not of arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby. The costs of the auditors or the independent financial adviser for the purpose of and in connection with the [REDACTED] Share Option Scheme shall be borne by our Company.

(p) Retirement, death or permanent physical or mental disability of an eligible participant

In the event of death of the grantee before exercising the option in full, his personal representative(s) may exercise the option (to the extent exercisable and not already exercised) either in full or in part until the earlier of the expiry of the Exercise Period and the expiry of 12 months following his death or such longer period as the Board may determine.

In the event of the grantee (being an employee or officer or director (or proposed director) or their respective close associates) ceasing to be an eligible participant by reason of disability of the relevant employee or director (or proposed director), the grantee may exercise the option (to the extent exercisable and not already exercised) either in full or in part until the earlier of the expiry of the Exercise Period and the expiry of six months following such cessation or such longer period as the Board may determine.

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In the event of the grantee ceasing to be an eligible participant for any reason other than his death or disability, bankruptcy or Culpable Termination of the relevant employee or director (or proposed director), the grantee may exercise the option (to the extent exercisable and not already exercised) either in full or in part until the earlier of the expiry of the Exercise Period and the expiry of 30 days following such cessation or such longer period as the Board may determine.

(q) Rights on takeover and schemes of compromise or arrangement

In the event of a takeover or merger offer (other than by way of a scheme of arrangement) being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such takeover or merger offer becomes or is declared unconditional, the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part at any time up to the close of such offer (or any revised offer) unless the Board shall determine to the contrary.

In the event of a takeover or merger offer by way of a scheme of arrangement (other than for the purpose of reconstruction or amalgamation of our Company) being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the scheme of arrangement is approved by the requisite resolutions of shareholders of our Company at general meeting, the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part not later than three Business Days (excluding any period(s) of closure of our Company’s share register(s)) immediately preceding the date of the proposed meeting, and our Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of our Company’s share register(s)) immediately preceding the date of the proposed meeting, allot and issue such number of Shares to the grantees which falls to be issued on such exercise. With effect from the date of the proposed meeting, the rights of all grantees to exercise the options shall forthwith suspended. Upon the scheme of arrangement becoming effective, all options shall lapse. If the scheme of arrangement is not approved by the relevant court, the rights of the grantees to exercise the options shall with effect from the date of the court’s decision be restored in full. No claim shall lie against our Company or the Board for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(r) Rights on voluntary winding up

In the event of a notice being given by our Company to its shareholders to convene a shareholders’ meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to all grantees on the same date as it gives notice of the meeting to its shareholders, and thereupon the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part not later than three Business Days (excluding any period(s) of closure of our Company’s share register(s)) immediately preceding the date of the proposed meeting,

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and our Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of our Company’s share register(s)) immediately preceding the date of the proposed meeting, allot and issue such number of Shares to the grantees which falls to be issued upon such exercise.

(s) Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), the Company shall forthwith give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part by giving notice in writing to the Company accompanied by a remittance for the full amount of the Exercise Price for the Shares in respect of which the notice is given not later than three Business Days (excluding any period(s) of closure of the Company’s share register(s)) immediately preceding the date of the proposed meeting, and the Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Company’s share register(s)) immediately preceding the date of the proposed meeting, allot and issue such number of Shares to the grantees which falls to be issued on such exercise.

(t) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option shall be subject to all the provisions of the Articles of Association and the applicable laws in force as at the date on which Shares are allotted and issued to a grantee pursuant to the exercise of an option hereunder (“**Allotment Date**”) and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the Allotment Date and accordingly shall entitle the holder to participate in all dividends or other distributions paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the Allotment Date.

(u) Duration

The [REDACTED] Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the effective date of the [REDACTED] Share Option Scheme, after which no further options may be offered or granted under the [REDACTED] Share Option Scheme but the provisions of the [REDACTED] Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the terms and conditions of the [REDACTED] Share Option Scheme.

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(v) Alteration of the [REDACTED] Share Option Scheme

The [REDACTED] Share Option Scheme may be altered in any respect by resolution of the Board save for the following alterations which may be effected only with the prior approval of our Shareholders at general meeting:

- (i) any alterations to the provisions relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantees or prospective grantees;
- (ii) any alterations to the terms and conditions of the [REDACTED] Share Option Scheme which are of a material nature except where such alterations take effect automatically under the existing terms of the [REDACTED] Share Option Scheme; and
- (iii) any change to the authority of the Board in relation to any alterations to the terms of the [REDACTED] Share Option Scheme,

provided always that the amended terms of the [REDACTED] Share Option Scheme must continue to comply with the relevant provisions of the Listing Rules and any other applicable laws.

(w) Termination

Our Company by resolution at general meeting or the Board may at any time terminate the operation of the [REDACTED] Share Option Scheme and in such event, no further options may be offered or granted under the [REDACTED] Share Option Scheme but the provisions of the [REDACTED] Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to the termination or otherwise as may be required in accordance with the terms and conditions of the [REDACTED] Share Option Scheme.

(x) Conditions of the [REDACTED] Share Option Scheme

The [REDACTED] Share Option Scheme is conditional on:

- (i) the passing of the necessary resolution by our Shareholders at general meeting as required by the Articles of Association for approving the adoption of the [REDACTED] Share Option Scheme;
- (ii) the Stock Exchange granting approval for the [REDACTED] of and permission to deal in the Shares to be allotted and issued by our Company pursuant to the exercise of the Options in accordance with the terms and conditions of the [REDACTED] Share Option Scheme; and
- (iii) the commencement of the dealings in the Shares on the Stock Exchange.

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If the conditions above are not satisfied on or before December 31, 2019 (or such later date as the Board may determine), the [REDACTED] Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the [REDACTED] Share Option Scheme.

An application has been made to the [REDACTED] to the Stock Exchange for the [REDACTED] of, and permission to deal in, the new Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the [REDACTED] Share Option Scheme.

As of the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the [REDACTED] Share Option Scheme.

Our Company will disclose in the annual and interim reports details of the [REDACTED] Share Option Scheme including the number of options granted/exercised/cancelled/lapsed, date of grant, vesting period, exercise period and exercise price during the relevant financial year/period in accordance with the Listing Rules in force from time to time.

E. [REDACTED] SHARE AWARD SCHEME

The following is a summary of the principal terms of the [REDACTED] Share Award Scheme conditionally approved and adopted by our Shareholders on [●], 2019 (“**Adoption Date**”). The terms of the [REDACTED] Share Award Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the [REDACTED] Share Award Scheme does not involve the grant of options by our Company to subscribe for new Shares.

(a) Purpose of the [REDACTED] Share Award Scheme

The purpose of the [REDACTED] Share Award Scheme is to enable our Group to:

- (i) recognise and acknowledge the contributions that the directors, senior management and employees of our Group or any advisors or consultants who satisfy the eligibility requirements as determined by the Board (“**Eligible Persons**”) have (or may have) made or may make to our Group (whether directly or indirectly);
- (ii) attract and retain and appropriately remunerate the best possible quality of employees and other Eligible Persons;
- (iii) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of our Group;
- (iv) enhance its business, employee and other relations; and/or
- (v) retain maximum flexibility as to the range and nature of rewards and incentives which our Group can offer to Eligible Persons.

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Our Board will grant awards under the [REDACTED] Share Award Scheme (“**Awards**”) after the [REDACTED].

(b) Duration of the [REDACTED] Share Award Scheme

Subject to any early termination as may be determined by our Board pursuant to the rules of the [REDACTED] Share Award Scheme, the [REDACTED] Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date, after which period no further Awards will be granted but the provisions of the [REDACTED] Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any Awards granted prior to the expiration of the [REDACTED] Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the [REDACTED] Share Award Scheme.

(c) Awards

An Award granted by the Board to the Grantee (as defined below) may be settled in the form of transfer of the Shares underlying the Award (“**Award Shares**”) or the payment of the Actual Selling Price (as defined below) in cash upon the vesting of such Award. Each Award may be subject to such other vesting conditions as may be imposed by our Board at its absolute discretion, including without limitation, a vesting period.

For the purpose of the [REDACTED] Share Award Scheme, “**Actual Selling Price**” shall mean the actual price at which the Award Shares are sold (net of brokerage, Stock Exchange trading fee, SFC transaction levy and any other applicable costs) on the vesting of an Award pursuant to the [REDACTED] Share Award Scheme or in the case of a vesting when there is an event of change in control or privatisation of our Company pursuant to the rules of the [REDACTED] Share Award Scheme, the consideration receivable under the related scheme or offer.

(d) Participants of the [REDACTED] Share Award Scheme and Basis for Determining the Eligibility of the Selected Participants

Our Board may, from time to time, at its absolute discretion, select any Eligible Persons to participate in the [REDACTED] Share Award Scheme (the “**Selected Participants**”), subject to the terms and conditions set out in the [REDACTED] Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to our Group.

(e) Grant and Acceptance of the Awards

Our Company shall issue a letter to each Selected Participant in such form as the Board may from time to time determine, specifying the date of grant, the number of Award Shares underlying the Award, the vesting dates (if any) (“**Vesting Date**”) and such other criteria and vesting conditions and further details as our Board may consider necessary (the “**Award Letter**”).

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An Award is accepted by the Selected Participants (“**Grantee**”) when our Company receives from the relevant Selected Participant a duly completed and executed duplicate of the Award Letter, or an agreement in such electronic form as may be prescribed by our Company from time to time, and a remittance of the sum of RMB1.00 consideration for the grant of the Award within the time period stipulated in the Award Letter and in the absence of such provisions, within seven days of the grant of the Award. Such remittance is not refundable under any circumstances.

(f) Grant to Connected Persons

Any grant of an Award to a connected person (as defined in the Listing Rules) or any of their respective associates (as defined in the Listing Rules) shall be subject to the prior approval of the independent non-executive Directors (excluding the independent non-executive Directors who is/are the proposed Selected Participant(s) of the Award in question) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary, the approval of our Shareholders.

(g) Appointment of Trustee and Maintenance of Trust

Our Company may appoint a trustee to assist with the administration and vesting of the Awards granted pursuant to the [REDACTED] Share Award Scheme (“**Trustee**”).

Our Company may at any time, but in any event at least three months prior to the Vesting Date of any Award Shares, and after having regard to the requirements under the rules of the [REDACTED] Share Award Scheme:

- (i) allot and issue such number of Shares to the Trustee as approved by the Board; or
- (ii) pay to the Trustee such monies in such amount as approved by the Board, and may give directions or a recommendation to the Trustee to apply such monies, paid or already held as part of the funds of the Trust to acquire such number of Shares; or
- (iii) apply any Returned Shares held in the Trust,

to satisfy in full the Award Shares which are vested and/or which shall be vested shortly.

“**Returned Shares**” are the Award Shares that are not vested and/or are forfeited in accordance with the terms of the [REDACTED] Share Award Scheme, or such Shares being deemed to be Returned Shares under the terms of the rules of the [REDACTED] Share Award Scheme.

Within a reasonable time period as agreed between the Trustee and our Company from time to time after receiving the amount or the direction to use such amount as specified in sub-paragraph (ii) above, the Trustee shall apply the same towards the purchase of the Shares at the prevailing market price in order to satisfy any Award which shall be vested shortly.

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Any excess amount provided shall, subject to any request for refund of the excess amount as our Company may in its absolute discretion determine to make, be retained by the Trustee for the benefit of the Trust. Where the amount paid or caused to be paid by our Company or where the amount that the Trustee is directed by our Company to use is not sufficient to purchase all of the Shares required to satisfy any Award which shall be vested shortly, the Trustee shall acquire the maximum number of board lots of Shares that it is able to acquire with the net cash available in the fund of the Trust and our Company undertakes to provide further funds to the Trustee.

(h) Settlement and/or Payment of Award

Upon the satisfaction of conditions including without limitation, the vesting of the Award, the Board may at its absolute discretion to either:

- (i) direct and procure the Trustee to release the Award Shares to the Grantees by transferring the number of Award Shares to the Grantees in such manner as determined by our Board in its absolute discretion from time to time; or
- (ii) to the extent where it is in the reasonable opinion of our Company not practicable for the Grantee to receive the Award Shares, direct and procure the Trustee to sell the number of Award Shares on such dates and in such manner as the Board shall in its absolute discretion determine and pay the Grantee the proceeds arising from such sale based on the Actual Selling Price of the Shares in cash as set out in the vesting notice (“**Vesting Notice**”) to be sent by our Company to the relevant Grantee prior to any Vesting Date,

in accordance with the procedure set out in the [REDACTED] Share Award Scheme.

(i) Cessation as an Eligible Person by reason of cessation of employment and other events

In the event that the Grantee ceases to be an Eligible Person at any time prior to the Vesting Date by reason of:

- (i) resignation of the Grantee’s employment with the Group;
- (ii) termination of the Grantee’s employment or early termination of the contractual engagement with our Group by reasons of misconduct or otherwise pursuant to law or employment or engagement contract;
- (iii) winding-up of any member of our Group in which the Grantee is employed or is contractually engaged; and
- (iv) death of the Grantee;

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any outstanding Award not yet vested shall be treated in accordance with the rules of the [REDACTED] Share Award Scheme, unless the Board determines otherwise at its absolute discretion.

If a Grantee ceases to be an Eligible Person for reasons or events other than provided under the rules of the [REDACTED] Share Award Scheme, then, all outstanding Award not yet vested shall be forfeited on his ceasing to be an Eligible Person unless the Board determines otherwise at its absolute discretion.

(j) Transferability and other rights to Award Shares

Any Award granted under the [REDACTED] Share Award Scheme but not yet vested shall be personal to the Grantee to whom it is made and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Award, or enter into any agreement to do so.

(k) Takeover, Rights Issue, Open Offer, Scrip Dividend Scheme, etc

- *Change in control*

(i) by way of merger and privatisation

If there is an event of change in control of our Company by way of merger or a privatisation of our Company by way of a scheme, in respect of Award Shares, all the outstanding Award which will vest in the next 12 months will vest on the date when such merger or privatisation (as the case may be) becomes unconditional, and the remaining unvested outstanding Award Shares shall lapse immediately, unless (and subject to compliance with all applicable laws, rules and regulations) our Board determines otherwise at its absolute discretion. Upon vesting, the relevant procedures as set out in the [REDACTED] Share Award Scheme shall apply except that the Vesting Notice will be sent to such Grantee based on the proposed Vesting Date as soon as practicable once the proposed Vesting Date is known. The Trustee shall transfer the Award Shares or pay its Actual Selling Price in cash as the case may be to the Grantee.

(ii) by way of offer

If there is an event of change in control of our Company by way of offer, in respect of Award Shares, all the outstanding Award which will vest in the next 12 months will vest on the date when such offer becomes or is declared unconditional and such date shall be deemed the Vesting Date, and the remaining unvested outstanding Award Shares shall lapse immediately, unless (and subject to compliance with all applicable laws, rules and regulations) our Board determines otherwise at its absolute discretion. Upon vesting, the relevant procedures as set out in the [REDACTED] Share Award Scheme shall apply except that the Vesting Notice will be sent to such Grantee based on the proposed Vesting Date as soon as practicable once the proposed Vesting Date is known. The Trustee shall transfer the Award Shares or pay the Actual Selling Price in cash as the case may be to the Grantee.

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For the purpose of the [REDACTED] Share Award Scheme, “**control**” shall have the meaning as specified in the Takeovers Code from time to time. For the avoidance of doubt, if there is an event of change in control of our Company that does not affect the [REDACTED] status of the Shares, this provision on automatic vesting shall not be applicable.

- *Open offer*

In the event our Company undertakes an open offer of new securities in respect of any Shares which are held by the Trustee under the [REDACTED] Share Award Scheme, the Trustee shall not subscribe for any new Shares. In the event of a rights issue, the Trustee shall sell the nil-paid rights allotted to it and unless otherwise instructed by our Company the Trustee shall hold the net proceeds of sale as funds of the Trust.

- *Bonus warrants*

In the event our Company issues bonus warrants in respect of any Shares which are held by the Trustee, the Trustee shall not, unless otherwise instructed by our Company, subscribe for any new Shares by exercising any of the subscription rights attached to the bonus warrants, and shall sell the bonus warrants created and granted to it, and the net proceeds of sale of such bonus warrants shall be held as funds of the Trust.

- *Scrip Dividend*

In the event our Company undertakes a scrip dividend scheme, the Trustee shall elect to receive scrip Shares and such Shares will be held as Returned Shares.

- *Consolidation, Sub-division, Bonus issue and other distribution*

- (i) In the event our Company undertakes a sub-division or consolidation of the Shares, corresponding changes will be made to the number of outstanding Award Shares that have been granted provided that the adjustments shall be made in such manner as our Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the [REDACTED] Share Award Scheme for the Grantees. All fractional shares (if any) arising out of such consolidation or sub-division in respect of the Award Shares of a Grantee shall be deemed as Returned Shares and shall not be transferred to the relevant Grantee on the relevant Vesting Date.
- (ii) In the event of an issue of Shares by our Company credited as fully paid to the holders of the Shares by way of capitalisation of profits or reserves (including share premium account), the Shares attributable to any Award Shares held by the Trustee shall be deemed to be an accretion to such Award Shares and shall be held by the Trustee as if they were Award Shares allotted and issued to or purchased by the Trustee hereunder and all the provisions hereof in relation to the original Award Shares shall apply to such additional Shares.

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- (iii) In the event of any cash or non-cash distribution or other events not referred to above by reason of which our Board considers an adjustment to the outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Award of each Grantee as the Board shall consider as fair and reasonable provided that the adjustments shall be made in such manner as our Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the [REDACTED] Share Award Scheme for the Grantees. Our Company shall provide such funds, or such directions on application of the Returned Shares or other funds in the Trust, as may be required to enable the Trustee to purchase Shares at the prevailing market price to satisfy the additional Award and paragraph (h) shall apply accordingly.
- (iv) In the event of other non-cash and non-scrip distributions made by our Company not otherwise referred to in the [REDACTED] Share Award Scheme above in respect of the Shares held upon the Trust, the Trustee shall dispose of such distribution and the net sale proceeds thereof shall be deemed as cash income of a Share held upon the Trust.

(l) Scheme Limit

Our Company shall not make any grant of Award which will result in the number of Shares allotted and issued to or acquired by the Trustee amounting or exceeding 10 per cent of the total number of issued Shares immediately after completion of the [REDACTED] (assuming (i) no exercise of the [REDACTED], (ii) no exercise of the options which have been or may be granted under the Share Option Schemes and (iii) no Shares are issued pursuant to the grant of the Awards under the [REDACTED] Share Award Scheme). The maximum number of Award which may be granted to a Grantee but unvested under the [REDACTED] Share Award Scheme shall not exceed one per cent of the total number of issued Shares from time to time.

(m) Alteration of the [REDACTED] Share Award Scheme

The [REDACTED] Share Award Scheme may be altered in any respect by a resolution of the Board provided that no such alteration shall operate to affect adversely any subsisting rights of any Grantee hereunder except:

- (i) where the consent in writing of Grantees is obtained amounting to three-fourths in nominal value of all Award Shares held by the Trustee on that date; or
- (ii) with the sanction of a special resolution passed at a meeting of the Grantees.

The amended terms of the [REDACTED] Share Award Scheme must comply with all applicable laws, rules and regulations (including without limitation the Listing Rules).

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(n) Termination

The [REDACTED] Share Award Scheme shall terminate on the earlier of:

- (i) the tenth anniversary date of the Adoption Date; and
- (ii) such date of early termination as determined by the Board without Shareholders’ approval provided that such termination shall not affect any subsisting rights of any Grantee hereunder.

(o) General

The [REDACTED] Share Award Scheme shall operate subject to the Memorandum and Articles and any applicable law.

(p) Conditions of the [REDACTED] Share Award Scheme

The [REDACTED] Share Award Scheme is conditional on:

- (i) the passing of the necessary resolution by our Shareholders at general meeting as required by the Articles of Association for approving the adoption of the [REDACTED] Share Award Scheme;
- (ii) the Stock Exchange granting approval for the [REDACTED] of and permission to deal in the Shares to be allotted and issued by our Company pursuant to the exercise of the Options in accordance with the terms and conditions of the [REDACTED] Share Award Scheme; and
- (iii) the commencement of the dealings in the Shares on the Stock Exchange.

If the conditions above are not satisfied on or before December 31, 2019 (or such later date as the Board may determine), the [REDACTED] Share Award Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the [REDACTED] Share Award Scheme.

An application has been made to the [REDACTED] to the Stock Exchange for the [REDACTED] of, and permission to deal in, the new Shares which may fall to be issued pursuant to the grant of Awards under the [REDACTED] Share Award Scheme.

As of the Latest Practicable Date, no Award had been granted or agreed to be granted by our Company pursuant to the [REDACTED] Share Award Scheme.

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F. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Tax and other indemnities

Our Controlling Shareholders have entered into the Deed of Indemnity with our Company (for itself and the other members of our Group). Under the Deed of Indemnity, our Controlling Shareholders will jointly and severally indemnify and keep indemnified our Company (for itself and the other members of our Group) against, among other things, (a) all taxation falling on any member of our Group resulting from, or relating to, or in consequence of, or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) and/or assets acquired by any member of our Group on or before the date on which the [REDACTED] becomes unconditional (the “**Effective Date**”); and (b) any loss our Group may suffer in connection with the Non-Statutory Contributions and Agent Payment Arrangement on or before the Effective Date.

Our Controlling Shareholders will, however, not be liable under the Deed of Indemnity where, among other things, (a) specific provision or reserve has been made for such liability in the Accountant’s Report set out in Appendix I to this document; or (b) the liability arises or is increased as a result only of a retrospective change in law or a retrospective increase in tax rates coming in force after the Effective Date; or (c) the liability would not have arisen but for any voluntary act of any member of our Group after the Effective Date which the relevant member of our Group ought reasonably to have known would give rise to such liability; or (d) in respect of any liability under the taxation indemnity given, and any claim in relation to taxation as specified under the Deed of Indemnity, the liability arises in the ordinary course of business of our Group after June 30, 2019 and up to the Effective Date.

3. Litigation

As of the Latest Practicable Date, no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on our results of operations or financial condition.

4. The Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rules 3A.07 of the Listing Rules.

The Sole Sponsor will receive an aggregate fee of US\$750,000 for acting as the sponsor for the [REDACTED].

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5. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in, or referred to in, this document (the “**Experts**”) are set out below:

Name	Qualifications
BNP Paribas Securities (Asia) Limited	Licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants
Haiwen & Partners	Company’s PRC legal advisor
Maples and Calder (Hong Kong) LLP	Company’s Cayman Islands legal advisor
China Insights Industry Consultancy Limited	Industry research consultant

6. Consents of experts

Each of the Experts has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be), all of which are dated the date of this document and made for incorporation in this document, and references to its name included in the form and context in which it respectively appears.

7. Interests of experts

Other than pursuant to the [REDACTED], none of the Experts has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

None of the Experts has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

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STATUTORY AND GENERAL INFORMATION

8. Promoter

Our Company has no promoter for the purpose of the Listing Rules. No amount or benefit has been paid or given within the two years immediately preceding the date of this document or intended to be paid or given to any promoter.

9. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation amounted to approximately HK\$28,000 and were paid by our Company.

10. Exemption from requirement to set out property valuation report

This document is exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in reliance on the exemption under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Please refer to the section headed “Business — Properties” in this document for further details.

11. Binding effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

12. Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Miscellaneous

- (a) Save as disclosed in the section headed “History, Reorganization and Corporate Structure” in this document and “— A. Further Information about Our Group — 2. Changes in the share capital of our Company” and — 4. Changes in the capital of our subsidiaries” in this section, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of any member of our Group has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

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- (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group; and
 - (iii) no commission (except commission to [REDACTED]) has been paid or payable to any person for subscribing, agreeing to subscribe, or procuring or agreeing to procure subscription, for any shares in or debentures of our Company.
- (b) Save as disclosed in “— D. Share Option Schemes” and “— E. [REDACTED] Share Award Scheme” in this section, no share or loan capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option.
- (c) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued.
- (d) Our Company has no outstanding convertible debt securities or debentures.
- (e) there is no arrangement under which future dividends are waived or agreed to be waived.
- (f) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document.
- (g) The principal register of members of our Company will be maintained in the Cayman Islands by [REDACTED]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by [REDACTED].
- (h) All necessary arrangements have been made to enable our Shares to be admitted into [REDACTED] for clearing and settlement.
- (i) No company within our Group is presently listed on any stock exchange or traded on any trading system.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of [REDACTED], [REDACTED], and [REDACTED];
- (b) the written consents referred to in the section headed “Statutory and General Information — F. Other Information — 6. Consents of Experts” in Appendix IV to this document; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Material Contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Deacons at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles of Association;
- (b) the Accountant’s Report of our Group from PricewaterhouseCoopers, the texts of which are set forth in Appendix I to this document;
- (c) the report from PricewaterhouseCoopers in relation to the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this document;
- (d) the audited consolidated financial statements of our Company for the financial years ended December 31, 2016, 2017 and 2018 and for the six months ended June 30, 2019;
- (e) the PRC legal opinions issued by our Haiwen & Partners, our legal advisor on PRC law in respect of certain general corporate matters of our Group and the property interests of our Group;
- (f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands Law, summarising certain aspects of the Cayman Companies Law referred to in Appendix III to this document;
- (g) the report issued by China Insights Industry Consultancy Limited, an industry research consultant, from which information in the section headed “Industry Overview” of this document is extracted;

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- (h) the Cayman Companies Law;
- (i) the written consents referred to in the section headed “Statutory and General Information— F. Other Information — 6. Consents of Experts” in Appendix IV to this document;
- (j) the material contracts referred to in the section headed “Statutory and General Information— B. Further Information about our Business — 1. Material Contracts” in Appendix IV to this document;
- (k) the service contracts and the letters of appointment with our Directors referred to in the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 2. Directors’ service contracts and letters of appointment” in Appendix IV to this document;
- (l) the terms of the [REDACTED] Share Option Schemes and a list of grantees under the [REDACTED] Share Option Schemes;
- (m) the terms of the [REDACTED] Share Option Scheme; and
- (n) the terms of the [REDACTED] Share Award Scheme.