OVERVIEW

We ranked 11th in the Internet data centre industry among carrier-neutral service providers in terms of revenue in 2022 with a market share of 0.6% according to the Frost and Sullivan Report. We provide comprehensive and reliable IDC Solution Services to our clients, who are primarily top-notch Internet companies and cloud computing service providers in the PRC. Our IDC Solution Services include the provision of colocation services and infrastructure management services. We established an extensive presence in the PRC, providing IDC Solution Services in 36 cities across 20 major provinces for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, with total bandwidth usage of approximately 292,800 Gbps as at 30 June 2023.

As a form of infrastructure and computing service distinguishable from our IDC Solution Services in that they enable our clients and their customers to build, secure and deliver digital experiences, our Edge Computing Services, or edge cloud, under the brand of *Lingjing Cloud (靈境雲)* was launched in 2022 and started to realise revenue in the same year. Edge Computing Services represents the convergence of the content delivery network (CDN) with functionality which has been traditionally delivered by hardware-centric appliances such as DDoS solutions. It aims to move computing power and logic as close to the end-user as possible.

In addition, we provide ICT Services and Other Services on a project basis per our clients' occasional enquiries and requests.

Modern and future society is driven by data collection, analysis, and storage, which groom and underpin cloud computing, mobile, interconnection, Internet of Things, 5G, Artificial Intelligence, virtual reality, augmented reality, and big data analysis. According to the Frost and Sullivan Report, the PRC has the world's largest 5G network coverage. The number of 5G base stations is expanding and the high data transferring capacity will drive the growth of mobile data traffic at a CAGR of 28.7% from 2023 to 2027. Demand for our IDC Solution Services is fuelled by the expeditious growth in the size of data created, transmitted, analysed, and stored in the midst of digital transformation. In March 2020, the PRC government announced the acceleration of the construction of 5G network infrastructure as part of the "new infrastructure". It is expected that the total market size of public cloud services in the PRC will increase with a high-speed growth at a CAGR of approximately 32.6% from 2023 to 2027.

In the provision of our IDC Solution Services, we proactively engage our potential clients and analyse their situation, requirements, and expansion needs, and provide constructive analysis and advice in relation to the implementation of their data centre operations. We provide the custodian service of our clients' servers, power supplies and network connection, and the overall infrastructure management services including but not limited to system security, disaster management, load balancing and technical consultation. We also provide our clients with Edge Computing Services, including but not limited to content delivery acceleration services.

Our Group has closely cooperated with Supplier A, one of the largest state-owned telecommunications carriers in the PRC. Partnering with Supplier A, we commenced the data centre operation and development in the northern and western parts of the PRC. Starting in Shandong Province, we participated in formulating the management and maintenance standards of Supplier A's certain branch data centres. Since then, we developed our presence of data centre operation through the cooperation with Supplier A across major parts of the PRC including but not limited to Shandong Province, Jiangsu Province, Guangdong Province, Zhejiang Province, Guangxi Province, Hebei Province, Shanxi Province, Sichuan Province, Guizhou Province, Qinghai Province, Xinjiang Uygur Autonomous Region, the Inner Mongolia and the direct-administered municipalities of Shanghai and Chongqing. According to the Frost and Sullivan Report, and our Directors concur that as at the Latest Practicable Date, out of the approximately 20–30 IDC solution service providers engaged by Supplier A in terms of transaction amount in the area of IDC solution services, we have become one of the most important ecosystem partners of Supplier A in terms of transaction amount in the area of data centre operation in Shandong Province and Inner Mongolia. For details, please refer to the paragraph headed "Business — Our Strengths — Solid and mutually complementary relationships with upstream telecommunication carriers and cross-regional IDC resource suppliers in the area of data centre operation" of this section.

We have a fast-growing and diversified client base which primarily includes top-notch cloud computing service providers, Internet companies and blue-chip listed companies in the PRC. Our clients choose us as a longstanding partner because we provide them with flexible and constructive solutions, scalable capacity, resilient business model, on-time delivery of services, cost-effective services, reliable connectivity, and responsive feedbacks. Our managed data centres are not only extensively distributed in the PRC, but also strategically located in all tiers of economic regions. We are able to guarantee the above-the-market-average power and connectivity uptime. During the Track Record Period, we did not experience any material disruption which affected our clients' operations. We conduct regular monitoring and testing to prevent the happening of outage and have devised solutions in advance of any incidents. We have self-developed platforms which provide effective flow management. As a result, the data centres under our management can improve utilisation and efficient delivery of Internet services.

Our managed IDC network is extensive across the major regions of China. Our presence on a national level enables us to provide effective and flexible solutions to our major clients in the PRC. Our cross-regional presence of our IDC Solution Services extended across 20 provinces and 36 cities which were relatively more economically developed during the Track Record Period. In addition, our Group's bandwidth usage as at 30 June 2023, amounted to an aggregate of approximately 292,800 Gbps bandwidth usage, across two direct-administered municipalities of Shanghai and Chongqing and various major cities in Jiangsu Province, Guangdong Province, Guangxi Province, Sichuan Province, Guizhou Province, Qinghai Province, and Xinjiang Uygur Autonomous Region, Shandong Province, Hebei Province, Shanxi Province and the Inner Mongolia.

A table of revenue generated from our IDC Solution Services by the regions of China for the year ended 31 December 2022 is set forth below.

Regions of the PRC	The total amount of revenue from IDC Solution Services in 2022 (in RMB million)	Percentage
Eastern part, including Shandong Province, Jiangsu Province and the direct-administered municipality of Shanghai	383.13	71.1%
Central part, including Hunan Province	0.01	0.0%
South-western and north-western parts, including Sichuan Province, Qinghai Province, the Xinjiang Uygur Autonomous Region and the direct-administered municipality of Chongqing	14.07	2.6%
Northern part, including Beijing, Shanxi Province, and the Inner Mongolia	141.45	26.3%
Total revenue from IDC Solution Services	538.66	100.0%

We have implemented a non-self-built and client-driven business model to respond quickly and flexibly to market changes. Since the commencement of our business, we have not built our own data centres but had a solid relationship with upstream telecommunications carriers. Our business operation begins upon the receipt of our clients' enquiries as to our IDC solution capacity in certain areas designated by our clients. We process the clients' requirements and communicate with our data centre resource suppliers in terms of their capacity and the corresponding cost. In order to maximise the efficiency of bandwidth allocation, we may, reschedule unutilised and excessive bandwidth capacity from other data centre resource suppliers with or without giving prior notification to such other suppliers. For example, for a sizeable and busy supplier, such as the branch office of Supplier A in the provincial capital, our Group normally did not have to give prior notification beforehand to reschedule excessive and idle bandwidth capacity procured from them to our Group's other clients for the sake of streamlining cooperation procedures. Meanwhile, some suppliers of a relatively smaller scale may prefer a practice of us giving them a prior notification before rescheduling excessive bandwidth capacity as the supplier may have to carry out cabinet installation and additional connection work for clients novel to them. The practice varies case by case, depending on the customary cooperation practice between our Group and a particular supplier or branch of supplier. After we are assured the relevant data centre resources can be duly secured and our services can be duly delivered, we will then enter into agreements with our clients. For details, please refer to the paragraph headed "Business — Our Business Models" of this section. We believe that our non-self-built and client-driven business model enables us to replicate our success in our IDC Solution Service operation to different regions in the PRC. It will also enable us to capture future opportunities in the industry and expand our operations with major cloud computing service providers and Internet companies. As the market evolves with our clients'

demand, we began to develop and provide a form of infrastructure and computing service distinguishable from our IDC Solution Services, namely, *Lingjing Cloud*, our Edge Computing Services, a line of business expected to become our main growth engine in the future. For details, please refer to the paragraph headed "Business — Our Services — Edge Computing Services" of this section.

We also began to introduce our Edge Computing Services under the brand of *Lingjing Cloud* to our clients since 2022. Our Edge Computing Services represent the convergence of CDN with functionality having been traditionally delivered by hardware-centric appliances, including but not limited to CDN services, and other services which have been or will be put on market such as edge cloud, edge security, edge storage, audio-visual and image services and cloud communication. There has been an increasing trend in which our clients request and procure our Edge Computing Services. For details of our Edge Computing Services, please refer to the paragraph headed "Business — Our Services — Edge Computing Services" of this section.

On top of our IDC Solution Services and Edge Computing Services, we provide ICT Services and Other Services which include a holistic information communication technology solution to our clients, on a project basis, integrating clients' system, software development and maintenance and consultation services. For details, please refer to the paragraph headed "Business — Our Services — ICT Services and Other Services" of this section.

We had experienced significant growth during the Track Record Period. Our revenue grew from RMB276.1 million for the year ended 31 December 2020 to RMB464.3 million for the year ended 31 December 2021, representing an increase of 68.2% and grew from RMB464.3 million for the year ended 31 December 2021 to RMB548.8 million for the year ended 31 December 2022, representing an increase of 18.2%. Our revenue grew from RMB265.3 million for the six months ended 30 June 2022 to RMB301.9 million for the six months ended 30 June 2023, representing an increase of 13.8%.

OUR STRENGTHS

One of the leaders in the fast-growing IDC solution service market with strong brand recognition in the PRC, capturing the enormous unreached potential of the fast-developing Web 3.0 market

We ranked 11th in the Internet data centre industry among carrier-neutral service providers in terms of revenue in 2022 with a market share of 0.6% according to the Frost and Sullivan Report. We provide effective IDC Solution Services to our clients, who are primarily top-notch Internet companies and cloud computing service providers in the PRC.

The IDC solution service market in the PRC has entered a transformation stage, where various technologies such as cloud computing, mobile interconnection, Internet of Things, blockchain, 5G, augmented reality, virtual reality, e-payment, digital currency, Artificial Intelligence, and big data analysis are being integrated. It is envisioned that substantial growth for public cloud services will continue in the PRC in the decades to come. According to the Frost and Sullivan Report, the PRC's

market experienced accelerated growth attributable to the rapid development of innovative technologies in cloud services. It is expected that China will exceed the U.S. and become the largest market for internet data centres globally in the next five years. According to the Frost and Sullivan Report, the size of public cloud services in the PRC is expected to increase at a CAGR of 32.6% from 2023 to 2027.

Following the explosive popularity and development of short-video content and live-streaming e-commerce since 2019, the demand for our IDC Solution Services has surged exponentially. With a strong network with state-owned telecommunication carriers and our bandwidth scheduling and reallocation capacity, we are able to coordinate data centre resources including bandwidth and cabinets from various branch offices of our suppliers, and consolidate an optimal IDC solution for our clients. With our bandwidth scheduling and reallocation capacity, we can maximise our utilisation rate of packet ports, usually exceeding 100% of the bandwidth capacity. The higher the excessive amount of bandwidth usage is utilised from our repeated use of the packet ports sourced from suppliers, the more our Group's average bandwidth cost can be driven down. It follows that we can provide our IDC Solution Services at a competitive price to our clients. As a result, our revenue grew from RMB276.1 million for the year ended 31 December 2020 to RMB548.8 million for the year ended 31 December 2022 at a CAGR of 41.0%. Our Directors believe that our all-encompassing network is the reason as well as the consequence of our clients being cohesive with us. We are ready and well-positioned to ride the mounting market uptrend and benefit from a series of government policies in the PRC. For details, please refer to the paragraph headed "Industry Overview — Overview of Internet Data Centre Industry in the PRC — Market drivers, opportunities and trends" in this document.

We have built up a strong brand with high-quality services. We were awarded and recognised as "*Top Ten National New Benchmark Enterprises in China's Cloud Service Industry*" (中國雲服務行業最具影響力十大民族新標杆品企業) and "*National Science and Technology Innovation Demonstration Unit*" (全國科技創新示範單位) by China Brand Quality Certification Supervision and Management Centre (中國品牌質量認証監督管理中心) and China Enterprises Credit Assessment Management Committee (中國企業信用評價管理委員會) in 2021. We were awarded "*AAA Level Credible Managing Demonstration Unit*" (AAA級誠信經營示範單位) by China Comprehensive Credit Assessment Centre (全國綜合信用評估中心) in 2021. In 2022, our *Lingjing Cloud* was selected for China Communications Standards Association's "2022 Edge Computing Industry Spectrum" (2022邊緣計算產業圖譜) and included in the "Application Case collection of Industry Metaverse Innovation"(產業元宇宙創新應用案例集) in the World Artificial Intelligence Conference 2022 (2022世界人工智能大會). In 2023, we were awarded 2022 Internet Award: Internet Transformation Services Award (2022互聯網風雲榜—互聯網轉型服務獎) by Wuxi Internet Association.

Loyal and fast-growing relationships with our large and market-leading clients

We have a fast-growing and diversified client base which primarily includes top-notch cloud computing service providers, Internet companies and blue-chip listed companies in the PRC. During the Track Record Period, our total revenue in the IDC Solution Services segment surged from

RMB249.3 million for the year ended 31 December 2020 to RMB538.7 million for the year ended 31 December 2022 at a CAGR of 47.0%, and increased by 13.8% from RMB265.3 million for the six months ended 30 June 2022 to RMB301.9 million for the six months ended 30 June 2023. We attribute our success partly to our capability to provide cross-regional IDC Solution Services in 20 provinces and 36 cities which are relatively more economically developed for the three years ended 31 December 2022 and the six months ended 30 June 2023. For details of our geographical presence in the PRC, please refer to the paragraph headed "Business — Our Geographical Presence" of this section. As at 30 June 2023, our Group's bandwidth usage amounted to an aggregate of approximately 292,800 Gbps from our managed data centres. We believe that the main reason for our Group being the preference of our clients, which are large Internet service providers on the national level, is our cross-regional network coverage, supported by state-owned telecommunication carriers, aligning with their strategic and expansive appetite geographically.

Our IDC Solution Services are capable of meeting the expansive capacity requirements to our services from our clients, which are mainly leading Internet companies and cloud computing service providers in the PRC. There are usually demand from leading Internet companies and cloud computing service providers in the PRC for data centre resources with extensive geographical coverage across regions or even provinces. It is time-consuming and not cost effective to carry out multiple negotiations with each of the different branch offices of the state-owned telecommunication carriers to come up with agreed commercial terms and prices as different branch offices may have different aspects of consideration and focus on carrying out their business operation. This increases the transaction cost and implementation cost. For data centre resources where bespoke solution services are required, Internet companies and cloud computing service providers tend not to enter into transaction directly with state-owned telecommunication carriers, but engage with IDC solution service providers who can provide more flexible solutions. Client B, being a member of a leading company with a strong Internet foundation, based in the PRC, is among our largest clients and for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 contributed to RMB68.1 million (as the second largest client of our Group of the corresponding year), RMB133.4 million (as the largest client of our Group of the corresponding year), RMB112.6 million (as the largest client of our Group of the corresponding year) and RMB50.8 million of our revenue, respectively. During the Track Record Period, we also became an important IDC Solution Service provider to Client F, Client G and Client H. For further details of our clients, please refer to the paragraph headed "Business — Our Clients" of this section.

As our relationship with our top-notch clients solidified, we witnessed a noticeable growth in sales from our existing clients. Our revenue contributed by our five largest clients increased in aggregate from RMB197.0 million for the year ended 31 December 2020 to RMB347.1 million for the year ended 31 December 2021 at a rate of 76.2%. It further increased to RMB425.4 million for the year ended 31 December 2022 at a rate of 22.6% and increased by 20.0% from RMB218.7 million for the six months ended 30 June 2022 to RMB262.5 million for the six months ended 30 June 2023. Client I, a subsidiary of a multinational technology corporation based in the PRC, has become our client since 2020, and Client J, a controlled structure entity of one of the leading providers of Internet services and mobile value-added services in the PRC listed on the Stock

Exchange, has become our client for IDC Solution Services since 2021. Revenues generated from Client I and Client J for the year ended 31 December 2022 amounted to RMB71.2 million and RMB99.9 million, respectively. Our experience in serving market leaders provides us with industry know-how, operational experience, and reputation which we can leverage in further exploring development opportunities with them.

Solid and mutually complementary relationships with upstream telecommunication carriers and cross-regional IDC resource suppliers in the area of data centre operation

We have a long-standing relationship with Supplier A, one of the state-owned telecommunication carriers in the PRC. According to the Frost and Sullivan Report, and our Directors concur that, out of the approximately 20–30 IDC solution service providers engaged by Supplier A, we have become one of the most important ecosystem partners of Supplier A in terms of transaction amount in the area of data centre operation in Shandong Province and Inner Mongolia. The Group has a solid customer base and good reputation in the provision of IDC Solutions Services in Shandong Province and Inner Mongolia, and serves as Supplier A's ecosystem partner in distribution of bandwidth capacity to the Internet companies. It is estimated that the Group accounts for more than 10% of service fees paid by the ecosystem partners to Supplier A in Shandong Province and Inner Mongolia. As a result, we are of the view that our Group's operation and Supplier A's are essential and complementary to each other in the area of data centre operation.

Since 2016, the Internet data centre business market has entered into a transformation stage where the market demand was more advanced, integrated, and energy-saving services. Supplier A, one of the state-owned telecommunication carriers, was in need of flexible and extensive IDC solution service providers as ecosystem partners to more efficiently distribute their idle bandwidth capacity to the Internet companies. Our Directors noticed such opportunity and provided services as a bridge between telecommunication and Internet companies. At that time, one of our clients, being a National High and New Tech Enterprise recognised by the Shenzhen Municipal Government intended to purchase data centre resources from Supplier A in Qingdao. It was then the first time the Qingdao branch office of Supplier A (the "**Qingdao Branch Office**") to provide IDC services. As the Qingdao Branch Office lacked relevant experience in the management and maintenance of data centres, the client therefore introduced our Group to the Qingdao Branch Office to provide assistance. Our cooperation with Supplier A began in Qingdao, where we sourced data centre resources from them, mainly including server rack space, power supply and bandwidth capacity, and took charge of the maintenance of the data centres of the Qingdao Branch Office. Our starting point in Qingdao laid the foundation of our lasting relationship with Supplier A. According to the Frost and Sullivan Report, and our Directors concur that we have become one of the most important ecosystem partners of Supplier A in terms of transaction amount in the area of data centre operation in Shandong Province and Inner Mongolia. For details, please refer to the paragraph headed "Business — Our Suppliers — Relationship with our largest supplier — Supplier A" of this section.

Our established relationship with Supplier A is robust in the comparison with other IDC solution service providers who have non-self-built data centres. On the one hand, we adopt an agile business model allowing us to be more responsive and flexible than the state-owned telecommunication carriers, but on the other hand, we are being supported by the vast and sheer scale of the data centre resources owned by state-owned telecommunication carriers which are in turn demanded by market-leading Internet companies and cloud computing service provider clients. Thus, our unique position enables us to capture the potential growth in the IDC solution service market in the PRC and increase our nationwide market share. According to the Frost and Sullivan Report, the Internet penetration rate in the PRC expanded from 59.6% in 2018 to 75.6% in 2022, at a CAGR of 6.1% and is expected to reach 90.0% in 2027, at an estimated CAGR of 3.4%. We had benefited from cooperating with Supplier A in exploiting the Internet data centre business market potential. Since our cooperation with Supplier A, our IDC Solution Services witnessed noticeable growth in terms of revenue, from RMB249.3 million for the year ended 31 December 2020 and increasing to RMB538.7 million for the year ended 31 December 2022 and increased by 12.9% from RMB261.2 million for the six months ended 30 June 2022 to RMB295.0 million for the six months ended 30 June 2023. According to the Frost and Sullivan Report, among the state-owned telecommunications carriers, Supplier A commended an absolute lead in the infrastructure development of 5G network, accounting for more than 50.0% of total base stations, which also exceeded the combined total of 5G base stations built by other two state-owned telecommunication carriers. With our solid relationship with Supplier A, our Directors are of the view that we are able to satisfy our clients' demand in any scale, thereby allowing us to provide comprehensive and reliable solutions to our clients and reinforce our relationship with them. The emergence of AI content generation technology and the concept of Metaverse may result in exponential growth of demand for IDC solution and edge computing solution for their high-definition video delivery and algorithmic analysis. In addition, state-owned telecommunication carriers in general are free from power restriction orders as compared with other privately owned data centre operators. Thus, we are able to provide more reliable IDC Solution Services as the risk of power outages with us is minimal.

We believe our Group's premium client base is complementary to fulfilling Supplier A's marketing and sales needs. Being top-notch cloud computing companies and Internet companies in the PRC, our major clients tend to be qualified by Supplier A's standard, including whether the requisite licences of the relevant operations have been obtained and whether the server or other equipment quality fulfils the required technology standard in order not to compromise the safety of the Internet, and able to purchase our services in bulk and timely on payment. We benefit from Supplier A's standard requirements imposed on our potential clients as our operations can thus be legal and safe. In addition, their fast-growing needs for our IDC solution services mean we have to, in turn expand our demand for and procurement from Supplier A's data centres. Enhanced stickiness between Supplier A and us ensued. For details of our relationship with Supplier A, please refer to the paragraph headed "Business — Our Supplier — Our relationship with our largest supplier — Supplier A" of this section.

During the Track Record Period and as at the Latest Practicable Date, to the best of our Directors' knowledge and belief, we have not encountered any material difficulties in sourcing data centre resources from Supplier A.

Highly efficient, flexible, and scalable business model with proven track records

We distinguish ourselves from other carrier-operated service providers and carrier-neutral service providers with self-built data centres by adopting a lean, non-self-built and client-driven business model, allowing our operation to be efficient and highly scalable. The reasons for us not to have self-built data centres include:

- strategically bypassing direct competition with state-owned telecommunication carriers and instead becoming an important partner with them;
- enabling us to develop a cross-regional platform, appealing to and serving top-notch Internet company clients and cloud computing service providers and not confining our presence to a particular area;
- flexibly developing new forms of services such as our Edge Computing Services and content delivery network products backed by extensive network infrastructure to provide step-up security and traffic experience for our clients' customers; and
- lower the risk of the development and operation of the data centre being affected by adverse industry policies.

As a result, we can focus our resources on tailor-making solutions for clients, developing and operating extended forms of IDC solution, and providing prompt responses to meet clients' advanced and evolving needs. By providing a one-stop IDC solution, beginning from the basic needs for server rack space and bandwidth to our traffic stability, speed and security solutions which set us apart from traditional data centre operators, we believe we are one of the IDC solution service providers frequently engaged by our top-notch Internet company and cloud computing service provider clients.

Featured with high scalability, our operation can flexibly expand into an unentered market while retreating our presence from another area. During the Track Record Period, we have been exploring the business potential in the south-western and north-western parts of China, including Sichuan Province, Guizhou Province, Qinghai Province, Xinjiang Uygur Autonomous Region and the direct-administered municipality of Chongqing. Riding on such thriving market, our total revenue grew from RMB276.1 million for the year ended 31 December 2020 to RMB464.3 million for the year ended 31 December 2021, representing an increase of 68.2%, from RMB464.3 million for the year ended 31 December 2021 to RMB548.8 million for the year ended 31 December 2022, representing an increase of 18.2% and from RMB265.3 million for the six months ended 30 June 2022 to RMB301.9 million for the six months ended 30 June 2023, representing an increase of 13.8%.

In addition to the extensiveness, we will also leverage our existing relationship with our client base to explore service offerings, we started to realise RMB5.2 million in our Edge Computing Services for the year ended 31 December 2022 with the gross profit margin of 18.4% and RMB5.3 million for the six months ended 30 June 2023 with the gross profit margin of 24.2%.

One of the active contributors in the development of the cross-regional edge computing network in prefecture-level cities and administrative districts and counties in the PRC

According the Frost and Sullivan Report, we are one of the active contributors in building the cross-regional edge computing network in prefecture-level cities and administrative cities and counties in the PRC. Our such edge computing network minimises the need to process data remotely in data centre and thus increases the responsiveness and throughput of applications, saves bandwidth and improves customer's user experience. Under the *Lingjing Cloud* infrastructure, which connects multiple networks to provide connectivity, Internet end-users or clients can enjoy quicker, more secured, flexible and scalable data transmission. As at the Latest Practicable Date, our Group preliminarily established the coverage of cross-regional edge computing network for the operation of our *Lingjing Cloud* in Northern China. We have established bandwidth connectivity and components of *Lingjing Cloud* such as servers, switches, our edge node platforms, cache modules and edge-node deployment modules, the deployment of physical or virtual machines located at the edge of the network, providing an interface for communicating with other edge nodes and allowing users to request content at the edge of the Internet instead of the source of the content, in Qingdao and other prefecture-level cities and administrative cities and counties of Shandong Province, Hohhot of Inner Mongolia, Taiyuan of Shanxi Province and Xuzhou and Wuxi of Jiangsu Province.

The revenue generated by *Lingjing Cloud* amounted to RMB5.2 million for the year ended 31 December 2022 and RMB5.3 million for the six months ended 30 June 2023.

We can leverage (i) our premium client base for the market of our *Lingjing Cloud* services; (ii) our long history with state-owned telecommunication carriers for a reliable supply of data centre resources; and (iii) our cooperation with reputable research and technology institutes for our technological development to allow us to seize the first-mover advantage to accumulate exuberant experience in gaining market insights and developing diverse products of *Lingjing Cloud* catered to various needs of our clients over the cross-regional edge computing network.

Visionary and experienced management team

Our management team benefits from our steady and experienced leadership with strong operational and administrative capabilities and excellent execution competency. Our founder, executive Director and chairman, Mr. Sun Tao, leveraging his over 16 years of experiences gained in data centre operation in the PRC, has led our Directors and senior management and spearheaded the expansion of our IDC Solution Services operation regionally and nationally. One of the major proven successes of Mr. Sun's foresight duly executed was to cooperate with Supplier A and unleash the relatively unexplored potential in the Internet data centre business market in prefecture or lower level cities. Mr. Sun captured the opportunity and assisted Supplier A in becoming the

frontrunner in such market by providing distribution services to and assisting in the operation of Supplier A's data centres. For details of our operation with Supplier A, please refer to the paragraphs headed "Business — Our Strengths — Solid and mutually complementary relationships with upstream telecommunication carriers and cross-regional IDC resource suppliers in the area of data centre operation" and "Business — Our Supplier — Our relationship with our largest supplier — Supplier A" of this section.

In addition, Mr. Sun strategically and deliberately positioned our Group as an IDC solution service provider without self-built data centres, adopting a lean, non-self-built and client-driven business model. Thus, we could focus on ably executing his plan to provide quality services and innovating solutions and rendering prompt responses to our clients' fast-evolving needs. For detailed elaboration of the reasons for not developing our own data centres, please refer to the paragraph headed "Business — Our Strengths — Highly efficient, flexible, and scalable business model with proven track records" of this section.

Mr. Sun believed that expanding our service offerings to Edge Computing Services would upgrade our service offerings and improve our operating leverage and profitability. According to the Frost and Sullivan Report, the market size of edge computing market in the PRC is expected to grow from RMB73.2 billion in 2023 to RMB250.9 billion in 2027 at a CAGR of approximately 36.1%. We believe that our Edge Computing Services benefiting from our extensive IDC network will play a more important role driven by (i) favourable PRC policy initiatives, such as the Notice on the Strategy and Implementation Plan of "Broadband China" (《"寬帶中國"戰略及實施方案》) issued by the State Council in 2013, which aims at maximising Internet coverage in the PRC; (ii) growing Internet user base with the popularity and development of e-commerce, short-video content and livestreaming; and (iii) increasing application of Artificial Intelligence in CDN services, as well as the development of 5G network. For details of our Edge Computing Services, please refer to the paragraph headed "Business — Our Services — Edge Computing Services" of this section.

Mr. Jiang Yanqiu, our general manager and executive Director, is primarily responsible for overseeing the operation of the Group's business and relationship with clients. He has over 10 years of sale experience in Internet business. Mr. Ji Lijun, our deputy general manager and executive Director, is responsible for overseeing the operation of the Group's business and relationship with our suppliers. He has over 15 years of sale and operation experience in the technology business. Mr. Zhu Wentao, the deputy general manager of our Group and head of *Lingjing Cloud* department, is responsible for the construction, operation and supervision of *Lingjing Cloud*, our cloud computing service platform. He has over 10 years of experience in development and maintenance of edge computing platform. For details, please refer to the section headed "Directors and Senior Management" in this document.

Most of our Group's core management members have stayed with our Group since they joined. We consider the stability of the management is a key to our Group's success, rapid and stable growth.

OUR STRATEGIES

Expand our market share by deepening our relationship with our existing clients, increase our service offerings and enlarge our client base

We intend to continue to solidify, bolster the relationship and deepen our partnerships with our existing clients. We will continue to satisfy our leading cloud computing company and Internet company clients' growing needs and scale our operation correspondingly in order to further increase our market share. We will keep capitalising on our established relationship and exploring new business needs of our existing clients.

During the Track Record Period, Client F and Client G, a subsidiary of a multinational Internet technology company and a consolidated variable interest entity of one of the leading e-commerce companies respectively, all based in the PRC, have become our clients since 2019; Client H and Client I, a cloud computing company and a subsidiary of a multinational technology corporation respectively, both based in the PRC, have become our clients since 2020; Client J, a controlled structured entity of one of the leading providers of Internet service and mobile value-added services in the PRC, has been our client since 2021. Since our Group's inception, our client base has covered the majority of the top-notch cloud computing service providers and Internet companies in the PRC. We believe our new clients will continue to contribute to a substantial growth of our revenue. We will continue to explore new opportunities with our clients and strengthen our versatility by increasing our variety of solutions and service offerings. For details of the background of our major clients, please refer to the paragraph headed "Business — Our Clients" of this section.

We intend to increase our service offerings by installing and upgrading our routers, ethernet switches and building up multiple redundant routers, switches and automatic fallover and recovery system and in various locations where our IDC Solution Services and Edge Computing Services are provided in order to enhance our operational efficiency and maintain network traffic stability. We intend to purchase and install bare-metal servers ("**BMS**") to provide stronger isolation from cloud servers of other consumers or tenants in order to overcome the challenges traditional cloud servers encounter, provide efficiency level by subjecting the servers less to defects, achieve higher security and privacy by separating BMS from other servers and attain higher flexibility by allowing our clients and their customers to use our services in the amount at the time needed by them. Not only can BMS be used to upgrade our IDC Solution Services quality, but it can also be applied in our Edge Computing Services under the brand of *Lingjing Cloud*. We also intend to upgrade our office in Wuxi Province and Hangzhou Province including purchasing additional office equipment and software in order to support our overall expansion in operation. For details of our future plans, please refer to the paragraph headed "Future Plans and [REDACTED] — [REDACTED] — Existing business improvement and operation development" in this document.

For our IDC Solution Service operation, we primarily attract new clients by relying on our own sales and marketing efforts and word-of-mouth recommendation of our existing clients. We have also enlarged our client base by participating in procurement or other exchange forums and tender bidding. For our Edge Computing Service operation, our primary strategy is to cross-sell our

Edge Computing Services to our existing clients of our IDC Solution Services. On the other hand, we intend to build up the brand awareness of *Lingjing Cloud* through participation in forums and seminars, distributing press releases and issuing advertisements. For our ICT Service and Other Service operation, we mainly cross the services to our existing clients and suppliers and collaborate with them in certain smart system development projects. We intend to continue to follow our above established and effective sales and marketing strategies to enlarge our client base.

Pursue regional opportunities horizontally and deepen service offering vertically

Our Group has constructed a nationwide network of our IDC Solution Services for our premium client base during the Track Record Period. Following the continuous economic development in prefecture-level cities or administrative districts and counties in China, the network infrastructure and development will trickle down to more rural areas, where Internet penetration rate is still low.

We will expand/sink our Edge Computing Services into new and rural territories with emerging needs for our services (the "**Lower-tier Region Network Strategy**"). According to the Frost and Sullivan Report, the network penetration rate of rural areas in 2021 was only 57.6%, compared with 81.3% in urban areas. We intend to strategically deploy BMS and our edge computing components in cities where our clients' users concentrate or our clients' potential customers lie. As part of the Lower-tier Region Network Strategy, we will geographically distribute the network of proxy servers and the data. We plan to increase our edge-based deployment in prefecture-level cities and administrative districts and counties where cloud service coverage is relatively limited. We will continue constructing our cross-regional edge computing network for our *Lingjing Cloud* with the support of state-owned telecommunication carriers. With an increasingly widely distributed network, we will be poised to capture significant growth potential in public cloud service and edge computing service market. Our CDN services, being part of our Edge Computing Services, will enable our clients' customers to have access to a copy of content closest to them so that content loading time is minimised. We seek to acquire or develop our proprietary CDN platform to enhance network efficiency by managing and optimising the workload of the servers through real-time optimisation and distribution.

Edge Computing Service market represents the convergence of the CDN with functionality that has been traditionally delivered by hardware-centric appliances, aiming to move compute power and logic as close to the end-user as possible. According to the Frost and Sullivan Report, the edge computing service market is expected to grow from 2022 at a CAGR of 36.1% from RMB54.2 billion to RMB250.9 billion in 2027. The edge cloud uses the emerging cloud computing, in which cloud service providers run the server and dynamically manage the allocation of machine resources. When milliseconds matter, processing at the edge is an ideal way to handle highly dynamic and time-sensitive data. During the Track Record Period, we launched the Edge Computing Services under the brand of *Lingjing Cloud*, allowing our clients to solve their complex business problems at the network edge, dynamic site acceleration, speeding up requests and responses between cache nodes in our clients' origin servers and provision of edge security

absorbing DDoS attacks without impacting performance. We intend to invest in a large-scale and enterprise-grade edge cloud platform which is developer-friendly and fully programmable. For details, please refer to the section headed "Future Plans and [REDACTED]" in this document.

As at the Latest Practicable Date, our Group preliminarily established the coverage of cross-regional edge computing network for the operation of our *Lingjing Cloud* in North China. In addition, our Group has begun cooperation with a government-funded scientific research institute to jointly conduct Metaverse research and development and set up joint innovation laboratory. Our Group and the relevant parties will, based on their respective resources, jointly conduct research and development for key technological breakthrough including but not limited to Metaverse, cloud computing and edge computing, promote the establishment of relevant industry standards and set up relevant working groups and platforms for such cooperation. The cooperation will utilise our IDC Solution Service and Edge Computing Service capacities in the contribution of Metaverse construction in the PRC.

Lingjing Cloud is an extension of our IDC Solution Services. Thus, we expect clients of our IDC Solution Services will be more easily attracted to our Edge Computing Services under *Lingjing Cloud* conducive and useful in their business. One of our important strategies is to cross-sell our Edge Computing Services to our existing clients of IDC Solution Services. On the other hand, we intend to build up the brand awareness of *Lingjing Cloud* through participation in forums and seminars, distributing press releases and issuing advertisements.

Heighten resources dedication to our research and development team to further enhance our Internet data centre platform's operational efficiency

We endeavour to preserve and leverage our pioneering position in the development of the cross-regional edge computing network infrastructure for our *Lingjing Cloud*. During the Track Record Period, we dedicated RMB10.6 million, RMB17.0 million, RMB23.6 million and RMB8.8 million as our research and development expenses for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively, as part of the investment for the building of our *Lingjing Cloud* platform.

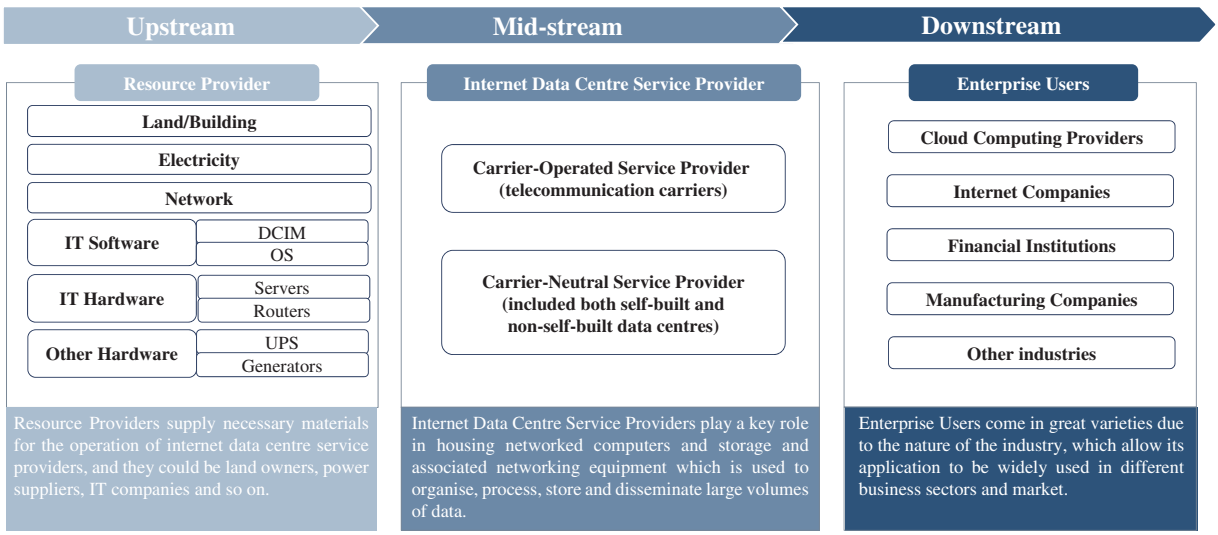
We will continue to enlarge our research and development team and reinforce our research capabilities in order to solidify our leading position in the market and preserve our clients' stickiness to us. In particular, the development of our *Lingjing Cloud* platform will require us to invest in our technology platform. Examples include the recruitments of skillful personnel who can master the functions of software such as Nginx, C++ and Python. We will continue to attract, retain, and internally develop highly skilled talents to enhance our service quality and optimise our operational efficiency in order to support our business expansion and deliver sustainable improvement in profitability of our business. For details, please refer to the paragraph headed "Future Plans and [REDACTED] — [REDACTED] — Recruitment talents for IDC Solution Service and Edge Computing Service operations" in this document.

OUR ROLE IN THE INTERNET DATA CENTRE INDUSTRY VALUE CHAIN

Our Position

Internet data centres can be categorised by types of carrier access, namely carrier-operated or carrier-neutral data centres. Carrier-operated data centres offer access only to one carrier and are dominated by the three state-owned telecommunications carriers in the PRC. Carrier-neutral data centres include data centres built and developed by service providers ("**self-built**") and data centres where the space and cabinets are owned by the three state-owned telecommunication carriers or other third parties but managed by the service providers ("**non-self-built**").

The following diagram sets out the value chain of Internet data centre industry in the PRC:



Source: Frost & Sullivan

Carrier-neutral data centre service providers, or IDC solution service providers, procure fibre resources from telecommunication carriers to meet their bandwidth needs. Carrier-neutral data centres service providers may also acquire their network access from multiple telecommunication carriers to make their networks more efficient. It is a common market practice for state-owned telecommunication carriers to procure services from IDC solution service providers which have relevant and reliable expertise. For details, please refer to the paragraph headed "Industry Overview — Overview of Internet Data Centre Business Market and IDC Solution Service Market in the PRC" in this document.

The Pain Points faced by State-owned Telecommunication Carriers and Internet Companies/ Cloud Computing Service Providers

The value of our Group along the value chain of the PRC Internet data centre industry is contributed by our capabilities in identifying our suppliers' and clients' pain points and solving their problems by reducing their transaction cost and enhancing their operational efficiency.

(1) ***Lack of commercialisation of the B-to-B Business in the data centre operation of state-owned telecommunication carriers***

State-owned telecommunication carriers generate fundamental revenue from the provision of wireless data traffic services (the "**Mobile Telecom Services**"), broadband services (the "**Household Broadband Services**"), short message service, multimedia messaging service, application and information services and other services to mass consumer (collectively, the "**B-to-C Business**"). For certain local and smaller branch offices of the state-owned telecommunication carriers whose businesses are not as diversified as those in the economically developed areas, their business focus is limited to the operation of the B-to-C Business, for which their telecommunication infrastructure is primarily designated. The excessive bandwidth capacity of the data centres, which entails substantial commercial value in generating revenue from business transactions with content creators such as Internet companies and cloud computing companies (the "**B-to-B Operations**"), have been usually left unmanaged and idle. It is because significant cost will be incurred by the state-owned telecommunication carriers to commercialise their B-to-B Operations with their data centres which were primarily constructed for their B-to-C Business. For example, it is not commercially efficient for the state-owned telecommunication carriers to devote substantial resources to handle trivial and cumbersome yet essential procedures such as server racking, emergency response, maintenance and complaint handling. On the other hand, IDC solution service providers are at a cost advantage to handle such matters. Also, IDC solution service providers are more in touch with the B-to-B Operations' market and are able to give a timely responsive solution to the clients. In this regard, the assistance of the IDC solution service providers is essential for the state-owned telecommunication carriers in fully realising the commercial value of the data centres and expand their business outreach to B-to-B Operations.

(2) ***High transaction cost of direct dealing between state-owned telecommunication carriers***

State-owned telecommunication carriers have set up different, separate, and independent branch offices in various cities and regions. For any major Internet company or cloud computing service provider which would like to extend its presence in a larger region across provinces and cities, the multiple negotiations of price, quantity, and other material terms will have to be carried out with different branch offices. This will greatly increase the transaction cost of the Internet companies or cloud computing service providers and make their operation inefficient. IDC solution service providers emerge to coordinate resources with various branch offices of different state-owned telecommunication carriers and are usually able to offer an optimal solution in terms of price, quantity and other material terms to their clients, reducing their transaction cost.

(3) ***Less competitive prices offered by state-owned telecommunication carriers***

With the abundant supply of data centre resources, it would be less costly for the state-owned telecommunication carriers to require their customers to purchase in bulk. It is true that sometimes the market-leading Internet companies/cloud computing service providers, which procure bandwidth capacity and cabinets in bulk, may directly deal with the state-owned telecommunication carriers. As state-owned telecommunication carriers are less prepared to accept purchase orders in relative small sum, they usually prefer to charge their customers by a Packet Port Charging Model (as

defined in the paragraph headed "Business — Our IDC Solution Services and Edge Computing Services Operation Processes — Billing and Payment Stage" in this document), where customers are generally charged based on the number of packet ports used regardless of their actual bandwidth usage at the fixed price per packet port. Customers may find it costly and inefficient to operate on packet ports as they may not always have demand huge enough to fully utilise each of the packet ports. IDC solution service providers with bandwidth scheduling and allocation capability, can arrange bandwidth traffic among different time intervals and different geographical horizons and thereby able to maximise the bandwidth utilisation rate and reduce average bandwidth cost. As a result, IDC solution service providers with bandwidth scheduling capacity can minimise bandwidth waste and provide more competitive pricing to their clients. Some of our clients may have their own data centres and may have significant demand for data centre resources, which may make it cost-efficient for these clients to directly deal with the state-owned telecommunication carriers and purchase in bulk. Whilst the bandwidth waste from idling packet ports may be considered negligible as compared with their overall bandwidth cost, they may not always have equally substantial demand for bandwidth usage in every city of their operation. Thus, the Packet Port Charging Model may not always be cost-efficient for them. In Shandong Province and Inner Mongolia where we have good relationship with state-owned telecommunication carriers, we are able to provide competitive pricing and tailor-made services to our clients in those regions as compared with our suppliers. To the client's end, our clients usually prefer 95th Percentile Bandwidth Charging Model in order to retain flexibility as it is on a pay-as-you-use basis. The 95th Percentile Bandwidth Charging Model is not generally preferred by our suppliers. Thus, our skills and technology assist in ironing out the differences between our supplier and our clients.

Remote Disintermediation Risk

Our Directors believe, and the Sole Sponsor concurs that, the risk of disintermediation whereby state-owned telecommunication suppliers will directly transact with our Internet company and cloud computing service provider clients, is low and is unlikely to cause any material adverse impact on our Group's operation. According to the Frost and Sullivan Report, it is uncommon and economically inefficient for Internet companies and cloud computing service providers to transact directly with each of the branch offices of the state-owned telecommunication suppliers, based on the pain point analysis above.

Indeed, state-owned telecommunication suppliers may directly deal with our clients who are Internet companies and cloud computing services providers. For example, during the Track Record Period, there was an occasion where it came to our knowledge that Client B directly sourced bandwidth service and cabinet resources from the Wuxi branch of Supplier A and subsequently turned to us for cabinet resources. Such occasion was primarily because Wuxi branch of Supplier A could not deliver the required cabinet resources to Client B on time due to Client B's sudden demand for a significant amount of cabinet resources and this arrangement was transitional and one-off in nature. For details, please refer to the paragraph headed "Business — Our Geographical Presence" in this document. Our Directors are of the view that under the circumstances where Client B requires (i) bandwidth services and cabinet resources to accommodate their servers in multiple areas of the PRC for the delivery of the content provided by them in such areas; (ii) our

comprehensive IDC Solution Services including colocation services and infrastructure management services; and (iii) the option for a more flexible charging model, such as 95th Percentile Bandwidth Charging Model, to avoid the risk of paying for idling bandwidth if the traffic is low, Client B may tend to acquire data centre resources from the state-owned telecommunication carriers through us. On the other hand, according to the Frost and Sullivan Report, under the uncommon circumstances where Client B requires (i) more control over its network infrastructure; (ii) special customisation on the network connectivity; and (iii) bandwidth services and cabinets in limited areas of the PRC, Client B may tend to negotiate with the state-owned telecommunications carriers to acquire data centre resources from them by directly. For demonstration of Client B's procurement of our bandwidth services and cabinet resources in different locations of the PRC, please refer to the paragraph headed "Business — Our Services — IDC Solution Services — Infrastructure management services — Case study".

Even having specific regard to the abovementioned transaction involving Client B, namely the One-off Arrangement (as defined below), our Directors are still of the view that the risk of disintermediation is remote and is unlikely to cause any material adverse impact on our Group's operation on the following grounds:

- The implication of the One-off Arrangement does not defeat our Group's value in resolving the pain points faced by our suppliers and clients, instead, it reinforced and strengthened the incentive of our clients to procure data centre resources through us rather than engaging the state-owned telecommunication carriers directly in the sense that our suppliers are not as efficient as us to provide timely solutions in response to emergent needs of clients since we are able to coordinate data centre resources from various sources. As illustrated in the One-off Arrangement where Supplier A's Wuxi Branch failed to deliver cabinet resources on time due to the sudden and significant surge in demand from Client B, Client B then turned to our Group for alternative cabinet resources to cover the shortfall. It serves as an example which (i) demonstrates state-owned telecommunication carriers' lack of sufficient foundation in respect of B-to-B Operations; and (ii) reflects Client B's recognition of the value of IDC solution service providers, including our Group's established IDC Solution Services and amicable relationships with other state-owned telecommunication carriers.

- As mentioned above, significant cost will be incurred by state-owned telecommunication carriers to commercialise their B-to-B Operations. As such, they might not be able to provide certain client services, including server racking, emergency response, maintenance and complaint handling. Nevertheless, our business development and future growth do not hinge on the assumption that state-owned telecommunication carriers will not commercialise their B-to-B Operations as we are capable to provide one-stop IDC solution services, ranging from colocation services which include server custody, and connectivity and power supply and customised bandwidth services to infrastructure management services. For details, please refer to the paragraph headed "Business — Our Services — IDC Solution Services" in this section. According to the Frost and Sullivan Report, technical support is one of the major factors that clients consider for the

procurement of data centre resources. Our in-house maintenance and network engineers provide technical support to our clients, both remotely and on-site. Looking forward, we strive to enhance our technical support to clients by recruiting various talents and professionals to expand our maintenance team to maintain our competitive edge. For details, please refer to the paragraph headed "Future Plans and [REDACTED] — Implementation Plans — Recruitment talents for IDC Solution Service and Edge Computing Service operations" in this document.

We believe that our competitive strengths in terms of geographic distribution, responsiveness to client's demand, price-competitiveness and relationship with state-owned telecommunication carriers provide us with significant opportunities, with which we strive to become one of the best IDC solution service providers in creating value for the Internet data centre industry. With our long-standing relationships with the state-owned telecommunication carriers and our market-leading clients, who play a pivotal role in the PRC's Internet data centre industry, we believe we can lower the cost and enhance transaction efficiency and thereby promote the development in the entire Internet data centre industry value chain.

Our History

In 2016, Supplier A, one of the state-owned telecommunication carriers, was in need of flexible and extensive IDC solution service providers as ecosystem partners to more efficiently distribute their idle bandwidth capacity to the Internet companies. For the reasons above and the pain points they faced, Supplier A could not effectively commercialise its B-to-B Operations in its data centre segment. Our Group noticed such opportunity and sourced data centre resources from Supplier A, mainly server rack space, power supply and bandwidth capacity, assisting Supplier A in completing relevant regulatory filing procedures and taking charge of the maintenance of the data centre's relevant branch offices of Supplier A. Since then, our Group continued to cooperate with Supplier A and our IDC solution service evolved from the provision of cabinets, IP addresses and bandwidth capacity, into the comprehensive IDC Solution Services including the provision of the colocation services and a full set of infrastructure management services. For details, please refer to the paragraph headed "Business — Our Suppliers — Relationship with our Largest Supplier — Supplier A" in this document.

Our Approaches

We distinguish ourselves by offering flexible, client's demand-driven, price-competitive and state-owned telecommunication carrier-friendly IDC solution service delivered to our clients.

- *Geographically flexible:* Leveraging our suppliers' extensive presence of data centres, our coverage of IDC solution service extends to the whole part of the PRC.

- *Client's demand-driven:* Our infrastructure management services are tailor-made and responsive to our clients. We provide a swift response to our clients' complaints and any emergency and maintenance situations on any operation-related issues.

- *Price-competitive:* Since we procure data centre resources including bandwidth capacity and cabinets in bulk, and we can enhance our efficiency in sizeable bandwidth-scheduling operations, we can offer more competitive prices to our clients than our suppliers.

- *State-owned telecommunication carrier friendly:* Optic fibres and bandwidth are state-owned in the PRC. For any traffic issue resulting from the backbone of the Internet, we can directly deal with the relevant branch offices of our suppliers on any infrastructure-related issues.

Our Offerings

Our IDC Solution Services include colocation services and infrastructure management services. Our IDC Solution Services allow our suppliers and clients to reduce transaction cost directly and enhance operational efficiency in the entire value chain. For details, please refer to the paragraph headed "Business — Our Services — IDC Solution Services" in this document.

- *Colocation services:* We provide custody service for our clients' servers and connectivity and power supply services at a price more competitive than they would otherwise directly deal with our suppliers.

- *Infrastructure management services:* We provide server racking, data centre management services, server monitoring service, server load balancing service, emergency reporting, network management and server middleware services, server security service, data backup, business continuity and disaster recovery services, system security services, technical consultation, general reporting, upgrade support and complaint handling as otherwise our suppliers would not have the expertise to provide. Such services are essential to the operation and commercialisation of our suppliers' B-to-B Operations in the data centre business.

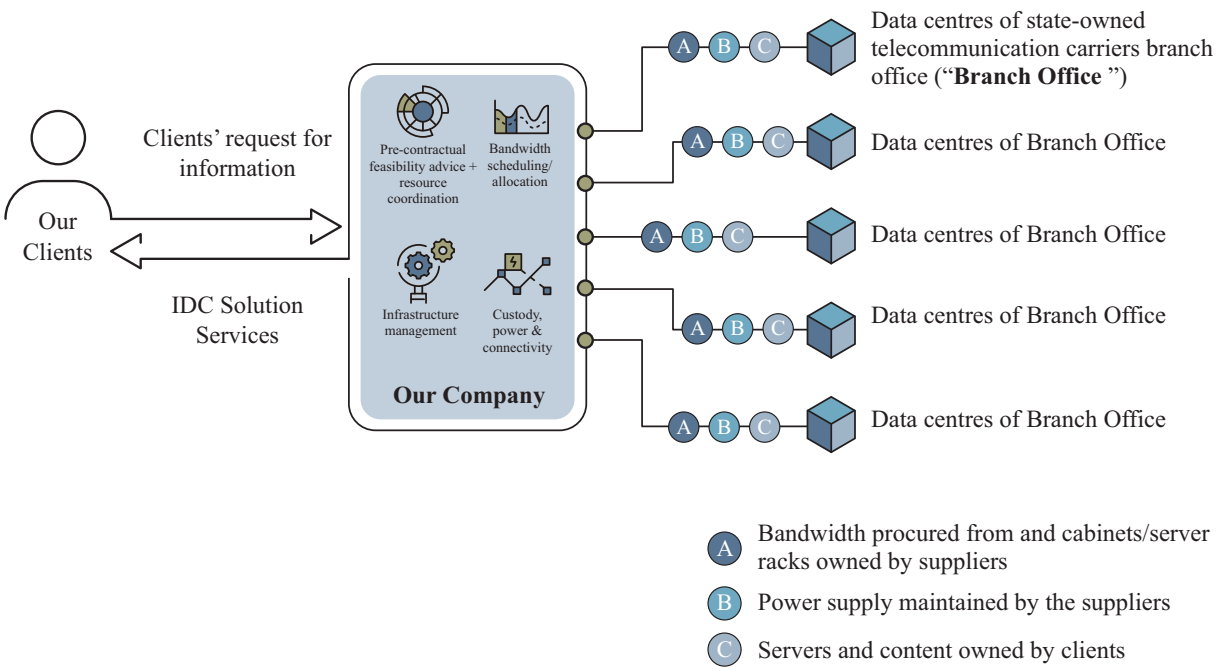
OUR BUSINESS MODELS

Our IDC Solution Services and Edge Computing Services are important parts of the cloud supply chain. Our operation commences upon clients' enquires and request for our IDC Solution Services/Edge Computing Services. We then conduct pre-contractual feasibility analysis through internal discussion and liaison with our suppliers and before providing IDC solution advice and delivering our IDC Solution Services and our Edge Computing Services to our clients. We source data centre resources, mainly bandwidth from state-owned telecommunication carriers or other small-and-medium data centre owners and operators. Our supplier generally charge us by the Packet Port Charging Model (as defined in the paragraph headed "Business — Our IDC Solution Services and Edge Computing Services Operation Processes — Billing and Payment Stage" in this document) based on the number of packet ports used and the fixed price per packet port. This lump-sum and all-or-nothing basis of charging requires our Group to allocate and schedule the traffic flow in order to avoid idling capacity. The allocated, scheduled and managed bandwidth is

then served to our clients. In this regard, we can provide flexible, tailor-made, geographically extensive, localised, enhanced and competitive services to our clients without owning data centre establishments.

Business model of our IDC Solution Services

Our IDC Solution Services include colocation services in terms of server cabinet, Internet connectivity, bandwidth usage and infrastructure management services. The following diagram illustrates the provision of our IDC Solution Services and the value created by us for our clients:



By coordinating data centre resources among different branch offices of our suppliers, we schedule and allocate bandwidth traffic and provide infrastructure management service which would be otherwise inefficient for our suppliers to provide, we can reduce transaction cost of both our clients and suppliers and enhance the operational efficiency of the entire value chain of the PRC's Internet data centre industry.

The Efficacy of the Business Model of Our IDC Solution Services

Our non-self-built and client-driven business model has put us at an unique and advantageous position over our competitors for the following reasons:

Operational and financial agility: The characteristics of our IDC Solution Service differentiate us from our competitors that adpot the self-built data centre model, which own and operate data centres. Data centre owners and operators are generally subject to relatively more significant financial volatility due to the initial capital commitment required to build and develop data centres. In contrast, we adopt a non-self-built data centre model and have relatively more flexible cash flows and lower level of initial capital requirement.

Cross-regional network: Our services are not confined to a particular area or province because our reach is cross-regional. First-class cloud computing service providers and Internet companies in the PRC prefer suppliers with cross-regional network who can satisfy their evolving expansion strategies. For details, please refer to the paragraph headed "Business — Our Strengths — Highly efficient, flexible, and scalable business model with proven track records" of this section. Our extensive network also enables us to implement the Lower-tier Regions Network Strategy and widen service offerings to include our Edge Computing Services under the brand of *Lingjing Cloud*.

Bandwidth traffic scheduling: Our profitability depends partially on our consolidation and scheduling capabilities of our client's bandwidth usage. We usually purchase fixed bandwidth from our suppliers, based on the number of packet ports, and provide such bandwidth to our clients, charging them by their usage. Thus, we may run the risk of idling bandwidth capacity if our clients' demand falls short of our fixed capacity. Our Edge Computing Services under the brand of *Lingjing Cloud* provides an important infrastructure of scheduling the bandwidth usage among our clients thereby improving their network performance as well as their customers' user experience and enhancing our profitability.

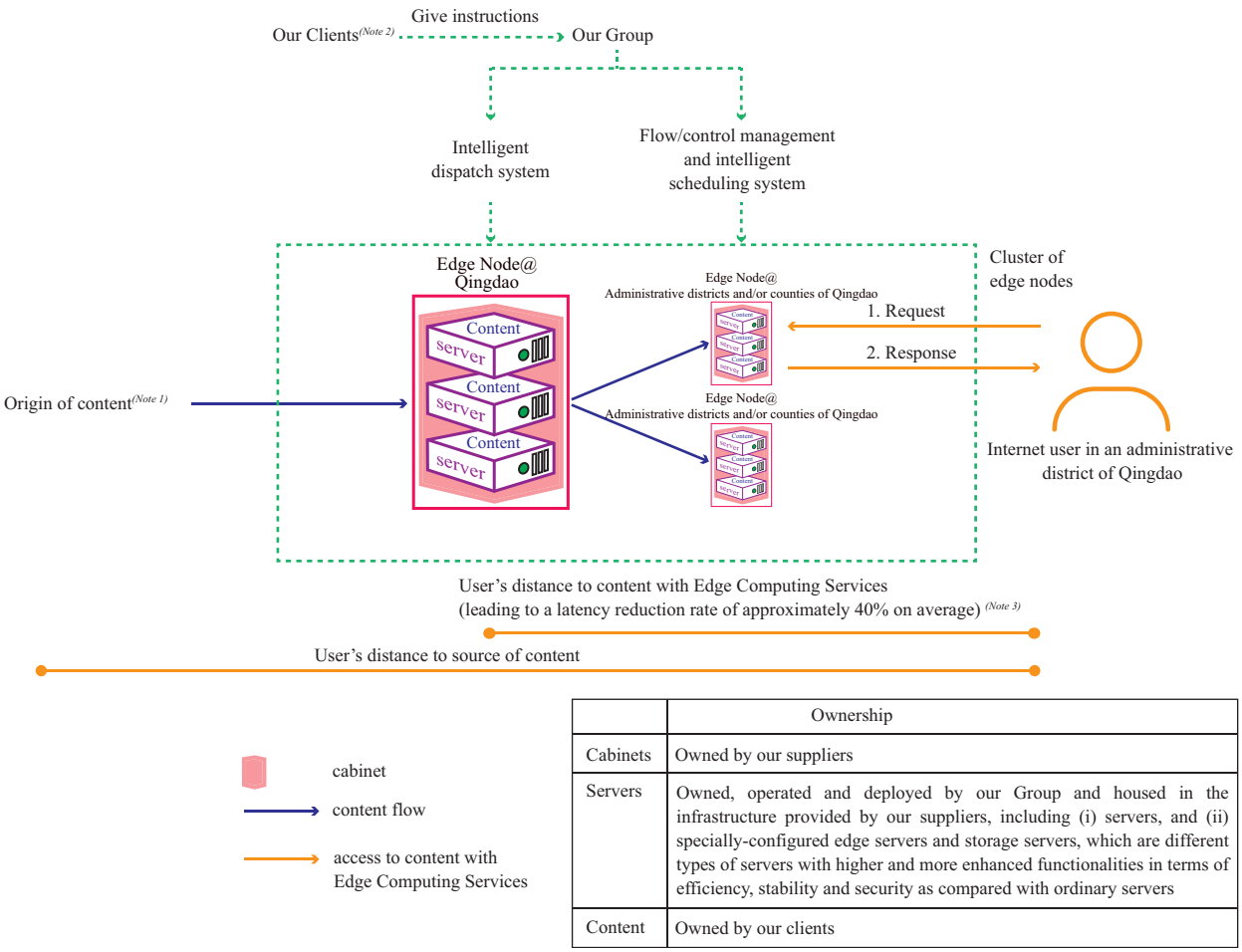
Established relationships with state-owned telecommunication carriers: Leveraging the server rack space and bandwidth that we mainly source from the state-owned telecommunication carriers, we can provide comprehensive and reliable IDC Solution Services and Edge Computing Services to our top-notch cloud computing service provider and Internet company clients. Our services are complementary to Supplier A in the IDC Solution Services segment. For details, please refer to the paragraphs headed "Business — Our Strengths — Solid and mutually complementary relationships with upstream telecommunication carriers and cross-regional IDC resource suppliers in the area of data centre operation" and "Business — Our Suppliers" of this section.

Rich industry experience and reliable technology: With our experienced and qualified management team, engineers and operation personnel and our well-devised protocols and procedures, we have been able to deliver satisfactory and quality services to our first-class clients. During the Track Record Period, to the best of our Directors' knowledge and belief, we did not receive any material complaints which had any material impact on our operation or reputation. Our churn rates during the Track Record Period were low. For details, please refer to the paragraphs headed "Business — Our Strengths — Visionary and experienced management team" and "Business — Our Clients — Colocation and Infrastructure management service agreement — Termination" of this section.

The value chain, flow and business models of our Edge Computing Services

Our Edge Computing Service under the brand of *Lingjing Cloud* include CDN services and other edge functionality which has been traditionally delivered by hardware-centric appliances. It offers our clients services with low-latency, low-lagging and high download speed, accurate edge node deployment and high cache hit rate, allowing users' information request to be transmitted to

and/or from the edge of the Internet instead of the source of content and their optional efficiency to be enhanced. The following diagram illustrates the provisions of our Edge Computing Services to an Internet user in an administrative district of Qingdao (for illustration purpose only):



	Ownership
Cabinets	Owned by our suppliers
Servers	Owned, operated and deployed by our Group and housed in the infrastructure provided by our suppliers, including (i) servers, and (ii) specially-configured edge servers and storage servers, which are different types of servers with higher and more enhanced functionalities in terms of efficiency, stability and security as compared with ordinary servers
Content	Owned by our clients

Note 1: The origin of content refers to the location where the source of the content is located. For example, our clients upload content to their own servers located in a data centre, which are connected directly to our network. Upon receiving requests from the Internet user, we distribute the relevant content to the Internet user through our edge networks.

Note 2: Our clients mainly include Internet companies and cloud computing service providers, who provide platforms, websites or search engines to Internet users. The data centre resources (including bandwidth) and edge networks provided by us to our clients serve to facilitate the content transmission from the origin of content to the Internet user.

Note 3: The latency reduction rate is the average percentage change of latency with the use of Edge Computing Services in the servers located in Qingdao. For details of the latency time with and without the Edge Computing Services, please refer to the paragraph headed "Business — Our Services — Edge Computing Services — Operating data — Number, location and bandwidth usage of the edge nodes established by our Group" in this document.

Edge Computing Services or edge cloud is a form of infrastructure and computing service distinguishable from our IDC Solution Services in that they enable our clients and their customers to build, secure and deliver digital experiences, at the edge of Internet. This service represents the convergence of the CDN with functionality which has been traditionally delivered by hardware-centric appliances such as DDoS solutions. Clients of our Edge Computing Services can also be clients of our IDC Solution Services. However, they do not compete with each other for businesses, because the applicable circumstances for IDC services and Edge Computing Services are different. In this regard, IDC solution services are largely applicable in large-scale applications and centralised data storage such as web hosting, cloud computing, software-as-a-service and data-intensive applications, whereas Edge Computing Services are specifically designed for applications that demand low latency, real-time processing and localised data management, which are particularly valuable for IoT deployment, autonomous systems, video streaming and immersive experiences that require immediate and localised responses. In addition, IDC solution services usually cater to large-scale cloud service providers in tier-one and tier-two cities, whereas Edge Computing Services cater to those in tier-two and tier-three cities. Being able to provide a more diversified service portfolio will help strengthen our established relationship with the clients of IDC Solution Services. For details, please refer to the paragraph headed "Industry Overview — Overview of Internet Data Centre Business Market and IDC Solution Service Market in the PRC — Difference in the technology adopted for IDCs and edge computing" in this document.

Edge node, a physical or virtual machine located at the edge of a network, which provides an interface for communicating with other nodes, allowing users to request content at the edge instead of the source of the content, is constituted by servers at the edge nodes as well as specially-configured edge servers and storage servers owned, operated and deployed by our Group and housed by the infrastructure provided by our suppliers, as compared to the case of our IDC Solution Services where the servers are owned by our clients. Content is transmitted from the source of content located at the servers in the data centres to the servers located at the edge nodes and is temporarily stored therein through the cache technology.

Edge nodes can be far from the data centre where the source of content is located and are situated at municipal levels or administrative districts and counties levels which are closer to the content users. By employing our Edge Computing Services, our clients allow their users to have access to the content at the edge node without the need to request content at its source. The decentralisation of content greatly reduces the user's time spent and distance travelled to source of content.

To facilitate the efficient operation of the edge nodes, our Group's research team has developed various systems and platforms in relation to intelligent deployment, scheduling and flow/control management system to effectively optimise the traffic flow, and provide sufficient maintenance and security at the edge nodes.

Value created by our Edge Computing Services

Our Edge Computing Services reduce our clients' time required and distance travelled to the source of content and enhance their operation efficiency. In addition, the value-added benefits offer by our Edge Computing Services compared to the traditional IDC solution services, including:

(i) reduced latency, enabling real-time processing and faster response time for time-sensitive applications;

(ii) enhanced reliability with a decentralised architecture, reducing a single point of failure;

(iii) improved bandwidth efficiency, reducing the need to transmit large amounts of raw data to centralised data centres for processing;

(iv) strengthened data privacy and security by eliminating the need for transmitting data to central data centre, minimising the potential exposure of sensitive information during the transmission process; and

(v) upgraded real-time insights and decision-making process, facilitating industrial automation, autonomous vehicles and remote monitoring featured with the need of immediate response processing data at the edge.

The functionality of our Edge Computing Services is conducive to various advanced technologies in different domains, including:

(i) IoT deploying, allowing efficient processing and analysis of data generated by IoT devices at the edge;

(ii) artificial intelligence and machine learning, reducing latency and enabling real-time inferencing;

(iii) augmented reality and virtual reality, reducing latency and enabling real-time processing and rendering of immersive content; and

(iv) video analytics, enabling applications like video surveillance, object detection, and facial recognition with reduced latency and enhanced privacy.

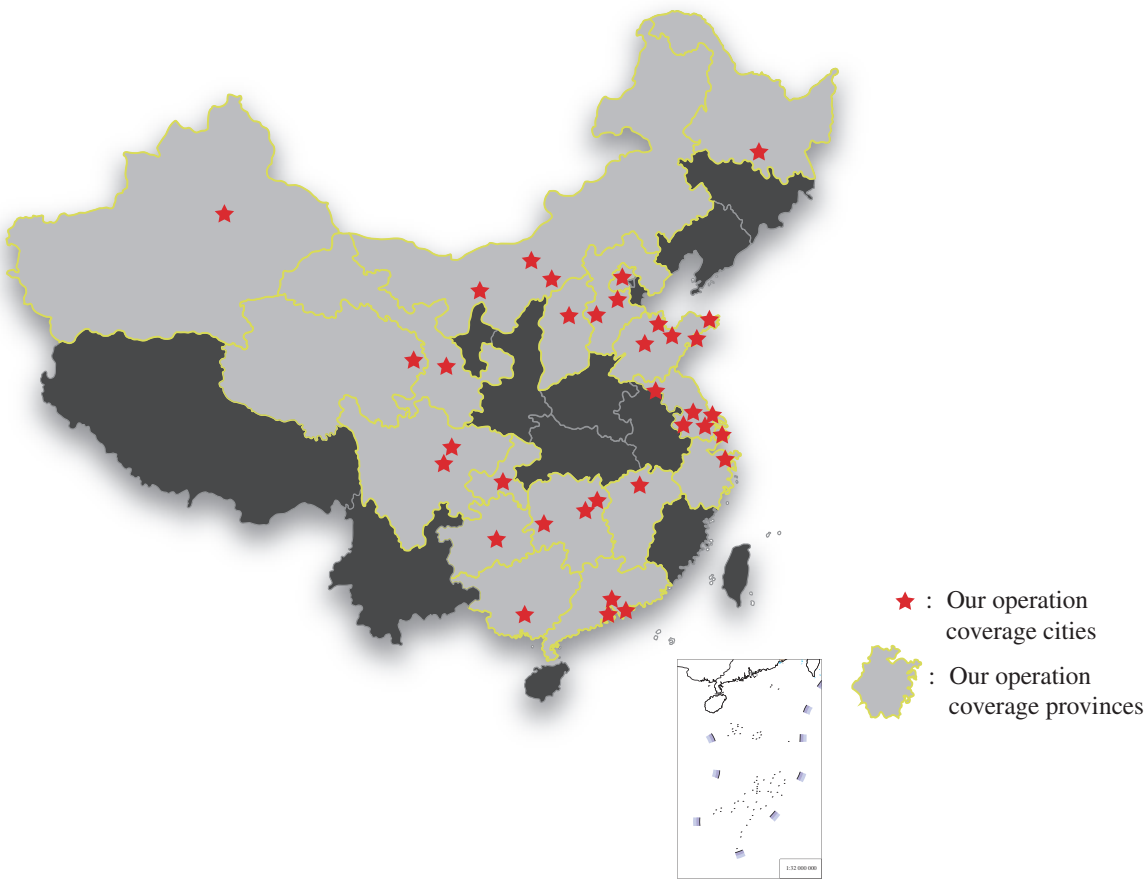
For details, please refer to the paragraph headed "Industry Overview — Overview of Internet Data Centre Business Market and IDC Solution Service Market in the PRC — Introduction of edge computing" in this document.

Business Model of our ICT Services and Other Services

We usually provide our ICT Services and Other Services on a project basis per client's occasional enquiries and requests. They include information communications technology solution, system development and maintenance, consultation services and provision of cloud computing hardware resources to our clients. We also provide short message services, phone plan recharge service and WeChat corporate mini-application development services.

OUR GEOGRAPHICAL PRESENCE

The following map illustrates the geographical presence of our operations for the Track Record Period:



The following table sets out the breakdowns of number of cabinet usage, for accommodating the servers provided by our clients in connection with their bandwidth procurement, and bandwidth usage concerning the network or our managed data centres we established for the Track Record Period:

		For the year ended 31 December						Six months ended	
		2020		2021		2022		30 June 2023	
Regions	Locations of data centres	Number of cabinet usage	Approximate bandwidth usage (in Gbps)	Number of cabinet usage	Approximate bandwidth usage (in Gbps)	Number of cabinet usage	Approximate bandwidth usage (in Gbps)	Number of cabinet usage	Approximate bandwidth usage (in Gbps)
North-eastern	Harbin (哈爾濱)	—	134.5	—	—	—	—	—	—
Northern	Beijing (北京)	—	—	—	2,987.1*(Note 2)*	—	5,750.4*(Note 2)*	—	—
	Hohhot (呼和浩特)	443	7,242.7	581	11,957.9	1,240	20,507.6	728	10,604.2
	Baotou (包頭)	—	—	10	897.0	18	1,800.0	8	980.0
	Wuhai (烏海)	—	—	2	170.0	24	1,680.0	1	10.0
	Taiyuan (太原)	398	5,668.4	171	2,569.0	16	256.5	35	337.3
	Shijiazhuang (石家莊)	3	0.1	10	0.4	—	—	—	—
	Langfang (廊坊)	3	0.3	—	—	—	—	—	—
Eastern	Qingdao (青島)	1,772	16,343.3	2,324	38,483.0	2,462	41,432.9	1,168	33,915.8
	Jinan (濟南)	297	5,812.0	274	4,677.3	288	5,801.8	138	2,412.8
	Weihai (威海)	—	—	—	—	9	300.0	18	600.0
	Weifang (濰坊)	87	1,688.9	75	1,929.5	326	7,926.8	326	5,287.2
	Dongying (東營)	21	260.8	—	—	—	—	—	—
	Shanghai (上海)	—	1.0	8	2,950.7	—	13,346.8*(Note 2)*	—	—
	Nanjing (南京)	—	—	7	0.3	—	—	—	—
	Zhenjiang (鎮江)	75	1,368.0	—	—	—	—	—	—
	Suzhou (蘇州)	3	80.0	36	1,200.0	—	—	—	—
	Wuxi (無錫)*(Note 3)*	707	12.1	10,201*(Note 4)*	5.3	2	6.8	—	0.6
	Xuzhou (徐州)	8	0.8	52	1,121.0	74	1,941.1	36	960.0
	Ningbo (寧波)	3	0.1	9	0.4	—	—	—	—
Central	Changsha (長沙)*(Note 1)*	75	1,169.8	—	—	4	0.0	—	—
	Nanchang (南昌)	51	1,069.5	—	—	—	—	—	—
	Xiangtan (湘潭)	76	2,661.5	—	0.1	—	—	—	—
	Huaihua (懷化)	64.6	859.4	—	—	—	—	—	—
Southern	Foshan (佛山)	240	86.0	180	8.0	—	—	—	—
	Guangzhou (廣州)	67	1,171.0	10	0.4	—	—	—	—
	Shenzhen (深圳)	—	—	7	0.3	—	—	—	—
	Nanning (南寧)	234	4,683.2	201	4,322.8	—	—	16	272.6
South-western	Chengdu (成都)	8	0.2	—	—	—	—	—	—
	Deyang (德陽)*(Note 1)*	—	0.1	—	0.1	4	0.0	—	—
	Guiyang (貴陽)	3	0.1	12	0.4	—	—	7	260.0
	Wuhan (武漢)	—	—	—	—	—	—	9	174.9
	Chongqing (重慶)*(Note 1)*	0	0.1	0	0.1	4	0.0	—	—
North-western	Urumqi (烏魯木齊)	12	329.9	71	2,049.3	78	1,443.7	48	623.8
	Haidong (海東)	132	2,124.0	111	1,621.3	33	1,180.0	39	1,080.0
	Lanzhou (蘭州)	77.4	1,486.5	35	700.2	—	—	—	—
Total		4,860	54,254.3	14,387	77,651.9	4,582	103,374.4	2,577	57,519.2

Note 1: The approximate bandwidth usages of Changsha, Chongqing and Deyang for the year ended 31 December 2022 were 0.04 Gbps, 0.04 Gbps and 0.04 Gbps respectively.

Note 2: The amount of bandwidth usage coupled with nil cabinet usage in Beijing and Shanghai was due to the relevant clients only procuring bandwidth from us without any need for cabinet usage.

Note 3: Despite the fact that our Group is headquartered in Wuxi, the data centre resources procured by our clients were generally irrelevant to our head office due to the extent of our cross-regional network.

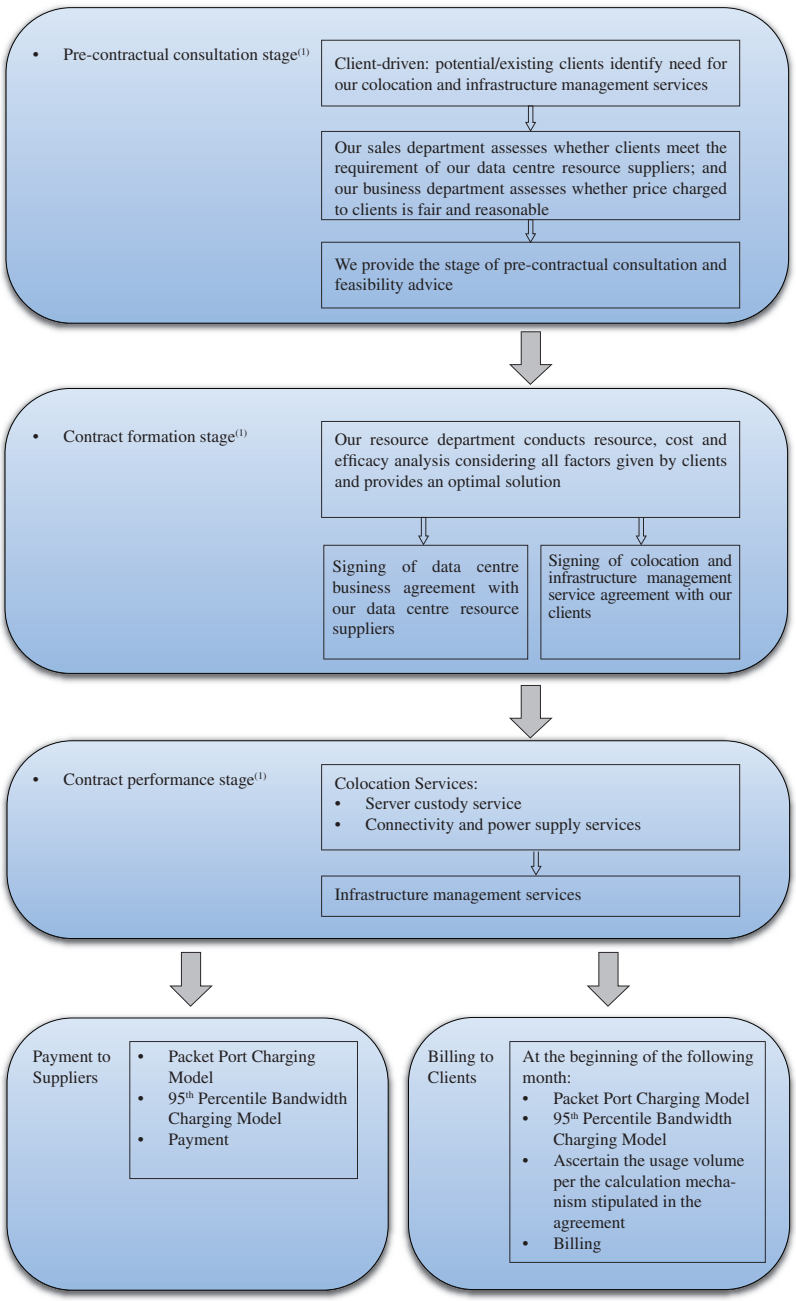
Note 4: In 2021, as confirmed by our Company, Client B originally directly sourced a certain volume of bandwidth service and cabinet resources (the "**Original Arrangement**") from the Wuxi branch of Supplier A ("**Supplier A's Wuxi Branch**"), however, Supplier A's Wuxi Branch could not deliver the required cabinet resources to Client B on time. Given that it was only the cabinet resources which the Supplier A's Wuxi Branch was unable to deliver due to specific business needs of Client B, Client B then sought such cabinet resources from us for a transitional period until Supplier A's Wuxi Branch was able to readily deliver the same. From the technical perspective, it is feasible to use the bandwidth service of Supplier A's Wuxi Branch with the cabinets of other suppliers. From the commercial perspective, clients may occasionally procure bandwidth capacity and cabinet resources separately in light of their business needs. Under the established relationship with our Group, Client B learned of our Group's better business connections for souring more diverse cabinet resources in Wuxi, and therefore turned to us to help sourcing temporary alternative cabinet resources. Our Group was able to source from another state-owned telecommunication carrier ("**Supplier P**") to provide immediately available cabinet resources for Client B (the "**One-off Arrangement**").

As confirmed by our Company, the One-off Arrangement was terminated in August 2021 when Supplier A's Wuxi Branch could readily deliver adequate cabinet resources to satisfy Client B's demand. To the best knowledge, information and belief of our Directors, we are not aware of any subsequent arrangement among Client B, Supplier A's Wuxi Branch and Supplier P, for bandwidth services and/or cabinet resources. In this regard, the One-off Arrangement was transitional where our Group charged Client B RMB5,000 per cabinet, compared with the range of RMB5,000 to RMB6,000 per cabinet we charged our clients in nearby regions under normal circumstances. Supplier P charged us RMB4,600 per cabinet, compared with the range of RMB4,000 to RMB5,000 per cabinet charged by the suppliers in nearby regions under normal circumstances.

During the Track Record Period, our Group managed to achieve consistent growth in the operation of cabinet usages and bandwidth usages in Hohhot, Qingdao, Jinan, Weifang, Xuzhou, Urumqi and Haidong. However, we also experienced the reduction in cabinet and bandwidth usages in cities such as Nanning and there was a general decreasing number of the cities, especially in the central and southern regions in the PRC, in which our managed data centres covered and operated. This was largely consistent with our strategy to focus on our major clients who could generate profitable businesses to us and reduce unprofitable operations. There is a generally positive but not necessary correlation between cabinet usages and bandwidth usages. Generally when clients procure our IDC Solution Services, they usually procure in a package bundling bandwidth capacity, cabinets and IP addresses for their business needs. Thus, the more bandwidth is to be used, more cabinets would tend to be needed. However, clients may occasionally procure bandwidth capacity separately in light of their business needs. In addition, certain clients may purely use our standalone customised bandwidth services instead of our comprehensive IDC Solution Services. In this regard, the client may only have bandwidth usage without the need to use any cabinet for their servers. For details of our customised bandwidth services, please refer to the paragraph headed "Business — Our Services — IDC Solution Services — Customised bandwidth services" in this document.

OUR IDC SOLUTION SERVICES AND EDGE COMPUTING SERVICES OPERATION PROCESSES

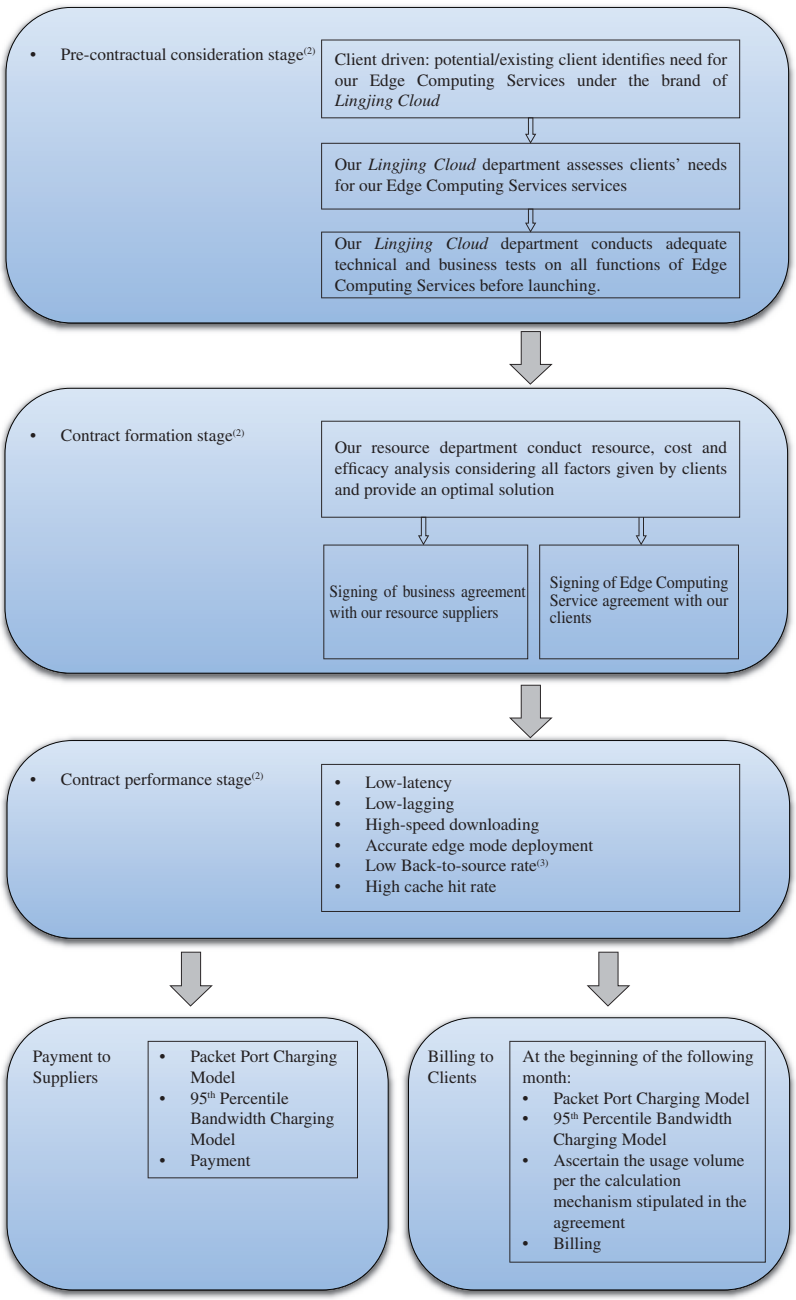
The following flowchart is the overview of the major steps involved in our IDC Solution Services operation process:



Note:

(1) Due to the approval processes of our Group and our suppliers, it normally takes two to three weeks to complete the pre-contractual consideration stage, the contract formation stage and the preparation work for the contract performance stage. Depending on the situations, it is not uncommon for our Group to complete the pre-contractual consideration stage and start the contract performance before the contract was actually signed in order to satisfy the timely or urgent needs of our clients.

The following flowchart is the overview of the major steps involved in our Edge Computing Services under the brand of *Lingjing Cloud*'s operation process.



Note:

(2) As we cross-sell our Edge Computing Services to our existing clients of IDC Solution Services, the typical completion time of the pre-contractual consideration stage, contract formation stage and the preparation work for the contract performance stage of our Edge Computing Services is similar to that of our IDC Solution Services.

(3) Back-to-source rate refers to the rate at which users have to request information from the source of the origin instead of the edge node due to the lack of cache at the edge node.

We have developed data centre management and operating procedures, protocols and standards which enable us to meet or exceed the performance and quality levels required in our agreements with our industry-leading clients. We have been certified ISO20000 (certification for information technology service management) and ISO27001 (certification for information security management systems) since 2020.

Pre-contractual Consultation Stage

Driven by clients' demand, our Group receives instructions to provide IDC Solution Services in a specific area regarding their Internet business. On the basis of their requirements for data centre resources specifying the desired amount of server racks, server rooms, server space, the number of IP addresses, the quality of bandwidth they would like to procure and whether there is any need for our Edge Computing Services under the brand of *Lingjing Cloud*, we perform relevant analysis through internal discussion. We would take into account whether this client is qualified by our suppliers' standard, including whether the requisite licences of the relevant operations have been obtained and whether the server or other equipment quality fulfils the required technology standard in order not to compromise the safety of the Internet as stipulated in our data centre business agreement in order to ensure the operation carried out thereunder would not contravene any legal requirements. We will also consult our supplier as to the availability of data centre resources and the quotation as a customary measure to ensure that at the pre-contractual consultation stage, our Group can secure the data centre resources before committing to our clients. Communications with the suppliers are a lowest-cost discovery process, which allows us to coordinate with various suppliers, optimise and maximise the efficiency of bandwidth utilisation, by sourcing suppliers' less used or idle capacity at a lower cost. Such information is an important component in the rate of return and cost analysis of our Group's operation, and can affect our quotation to our potential clients. We then evaluate the rate of return of this potential transaction, the cost analysis, and the resource availability.

Our Directors believe that the capability, location, and quality of our sourced data centres are key to maintaining our competitiveness. Our extensive cross-regional network of managed data centres puts us at an advantageous position to coordinate and arrange how our clients' servers are operated in terms of the size, timing, and location.

The feasibility analysis would be considered in detail and an optimal solution would be given to the client, specifying the recommended location of the facilities, the contract price, the term and so on. We seek to secure sourced data centres both in close proximity to main business districts and to areas with a high concentration of enterprises in order to satisfy the location preferences of our target segments. When appropriate, we may also counter-advise our clients as to the most optimal location which may be different from their originally desired one.

Where the client was satisfied with our proposal, we would proceed to finalise the colocation and infrastructure management agreement with the client and the data centre business agreement with the supplier.

There have been clients requesting and procuring our Edge Computing Services under the brand of *Lingjing Cloud* since 2022. Undergoing the same feasibility analysis process above, the service offerings will be blended into a one-stop and holistic solution service tailor-made for our clients' needs and reflected in the edge computing service agreement.

Contract Formation Stage

After the colocation and infrastructure management agreement and the edge computing service agreement with our clients, and the data centre business agreement with our suppliers have been finalised, our Group would sign with the clients and the suppliers respectively. Alternatively, should there be unutilised and idle bandwidth capacity under other existing data centre business agreements available for our existing clients at our disposal, we may re-arrange, re-allocate and re-schedule such available capacity for our new clients. Our Company will ensure there is sufficient bandwidth capacity reserved according to contracts with existing clients before such re-arrangement, re-allocation and re-scheduling idle capacity for new clients. For details of the salient terms of the data centre business agreement and the colocation and infrastructure management agreement, please refer to the paragraphs headed "Business — Our Suppliers — Data Centre Business Agreement" and "Business — Our Clients — Colocation and infrastructure management service agreement" of this section.

Contract Performance Stage

Once a colocation and infrastructure management agreement and/or edge computing service agreement are executed, we are bound to complete the server racking and deliver the designated bandwidth and Edge Computing Services under the brand of *Lingjing Cloud* within a designated timeframe. We would also perform the following services on an ongoing basis:

- data centre management services;
- server monitoring, management and maintenance services;
- server load balancing service;
- emergency reporting;
- network management and server middleware services;
- server security service;
- data backup, business continuity and disaster recovery services;
- system security services;
- technical consultation;
- general reporting;

- upgrade support; and
- complaint handling.

For detailed elaboration of the infrastructure management services we provide, please refer to the paragraph headed "Business — Our Services — IDC Solution Services — Infrastructure Management Services" of this section.

Our data centre operation team is responsible for directing, coordinating, and monitoring the daily operation of our data centre facilities. We assign dedicated staff as a relationship manager to our clients usually. Our in-house maintenance and network engineers stand by and manage remotely our managed data centres on 365/24/7 basis. As at the Latest Practicable Date, we provide two layers of management and support to our clients, including (i) the remote support provided by our Group, and the on-site technicians and personnel responsible for the daily operation and security of the data centres, who were deployed by the supplier that owns the data centres to all data centres and operation centres managed by us; and (ii) certain maintenance and network engineers deployed in operation centres and data centres with high bandwidth usage in Shandong Province. The maintenance and network engineers deployed by us are mainly responsible for such more complicated tasks such as troubleshooting and hardware changes. The factors affecting the deployment of our maintenance and network engineers in the data centres include the needs of daily maintenance work and the volume of businesses in such data centres. Furthermore, we are able to arrange outsourced technicians as additional support for data centres and operation centres to maintain their daily operation, conduct routine check-ups and perform urgent trouble-shooting tasks on an as-needed basis.

We assume technical responsibilities which have bearing on data centre performance, including, optimising data centre efficiency, surveillance of the critical facilities environment and network performance, incident response management and rectification. We also assume responsibilities for activities which may have an impact on our clients, including support for server racking, incident and compliance reporting, and response to client requests.

We have developed proprietary data centre management software which provides real-time information on network traffic and network quality and enables us to enhance our data centre management performance quality. We have also developed robust operating procedures, protocols and standards which enable us to meet and exceed our client's expectations of our services. We believe that our standard of IDC Solution Service operations, which reflects our competency and quality services, sets us apart from many IDC solution service providers which solely adopt the non-self-built data centre model in China.

Billing and Payment Stage

We generally charge our clients on two pricing models for bandwidth usage in our colocation and infrastructure management agreements. We employ a simple network management protocol (SNMP) to capture the data every five minutes at the beginning of a month in order to collect bandwidth utilisation samples over a period of time. Then, we sort the values from highest to

lowest and remove the top 5% of values. The remaining highest value is the 95th percentile value on which the measure of the bandwidth is based. This process is a market practice of measuring data traffic flow which is commonly known as 95th percentile bandwidth usage metering (the "**95th Percentile Bandwidth Charging Model**"). For more details of the 95th Percentile Bandwidth Charging Model, please refer to the paragraph headed "Business — Our Clients — Colocation and infrastructure management service agreement" of this section.

Our suppliers generally charge us based on the number of packet ports used and the fixed price per packet port (the "**Packet Port Charging Model**") or the 95th Percentile Bandwidth Charging Model. The Packet Port Charging Model is generally more popular with our suppliers as we would purchase the bandwidth capacity from them in bulk at a lower per-gigabyte price. It falls on our Group to allocate and schedule the traffic flow among our clients in order to avoid idling capacity. On the other hand, our clients would generally prefer to be charged under the 95th Percentile Bandwidth Charging Model. It is because under this model we charge our clients on a pay-as-you-use basis. They do not have to bear the risk of paying for idling packet ports and bandwidth if the traffic is low. The average per-gigabyte cost is usually higher under the 95th Percentile Bandwidth Charging Model than that of the Packet Port Charge Model, because only if each of the packet ports under the latter charging model is largely, fully or overly utilised would the average cost of such charging model be sufficiently driven down. Therefore, our clients would tend to reserve flexibility if the traffic nature of the content provided by them is expected to achieve less-than-full utilisation of the packet ports.

According to the Frost and Sullivan Report, and as confirmed by our Directors, the 95th Percentile Bandwidth Charging Model and the Packet Port Charging Model are the most prevalent pricing models commonly adopted in the industry in relation to the charge on bandwidth usage.

We would generally attempt to pass on any fluctuation in cost to our client. In addition, there may exist a delay in such cost pass-through, resulting in a mismatch between the rise in the fees charged to us and the rise in our price charged to our client. For details, please refer to the paragraph headed "Financial Information — Description of Major Components of Our Results of Operations" in this document.

OUR SERVICES

We primarily derive revenues from providing (i) IDC Solution Services which include colocation services and infrastructure management services; (ii) Edge Computing Services under the brand of *Lingjing Cloud*, which include CDN services and other edge functionality which has been traditionally delivered by hardware-centric appliances; and (iii) ICT Services and Other Services to our clients. We usually provide our ICT Services and Other Services on a project basis, per clients' occasional enquiries and request. For details, please refer to the paragraph headed "Business — Our Strategies — Pursue regional opportunities horizontally and deeper service offering depth vertically" of this section.

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

	Years ended 31 December						Six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
IDC Solution Services	249,251	90.3	437,232	94.2	538,662	98.2	261,240	98.5	295,007	97.7
Edge Computing Services	—	—	—	—	5,202	0.9	—	—	5,285	1.8
ICT Services and Other Services	26,813	9.7	27,044	5.8	4,889	0.9	4,082	1.5	1,570	0.5
	276,064	100.0	464,276	100.0	548,753	100.0	265,322	100.0	301,862	100.0

IDC Solution Services

Colocation services

Our top-notch cloud computing service provider and Internet company clients need our server hosting services, efficient connection to the Internet and adequate power source. Our colocation services mainly comprise (i) server custody service and (ii) connectivity and power supply services.

Server custody service

We provide a secure, reliable, humidstatic and thermostatic indoor and built environment for accommodating our clients' servers and related networking equipment. Our data centre resources provide such basic infrastructure essential for our clients' operation of their Internet-based businesses, as supported by the availability of power, connectivity, cooling and other bespoke server management services.

We offer comprehensive and reliable colocation services to our clients who can at their own liberty decide how their servers, networking and storage are to be hosted. The procurement options include a section of a cabinet or, an entire cabinet, for their servers and equipment. Our clients assume full control over their servers and full responsibility over the content software in their servers hosted in our managed data centres. Our managed data centres provide our clients' servers with redundant power supply, ventilating, air conditioning systems and connection to the Internet. Our colocation service is a part of the cloud service which allows our clients to bypass the cost and complexity of buying and managing physical servers and data centre infrastructure so that they can focus on their main business and enhance their core competitiveness.

Our colocation operation can be scaled correspondingly to satisfy our clients' expansive needs. As our clients' requirements evolve, we can provide upgraded capacity and connectivity as they so need. The data centres we manage are featured with a variety of strong security attributes comprising sensitive smoke detectors, temperature detection and alarm systems, fire suppression systems, secured access, around-the-clock video camera surveillance and security breach alarms. Our managed data centres are fully redundant with a mirrored system of two independent

distribution systems. Thus, the interruption of power supply or Internet connectivity can be prevented despite a failure of one power or network source. Our managed data centres are also featured with resilient power supplies, efficient energy consumption, multiple-line network and 365/24/7 on-site support from our skilled engineers. Under the colocation and infrastructure management service agreement with our clients, we guarantee our clients 99.99% uptime for power and 99.90% uptime for Internet connectivity. Same provisions also exist in the data centre agreement with our suppliers. Thus our Group and our clients should be able to be indemnified by the relevant suppliers should the guaranteed performance under the colocation and infrastructure management service agreement are not met. Our Directors believe that such clauses should be market standards in the IDC solution service market. To the best of our Directors' knowledge and belief, there were no material dispute or complaints by our client as to our performance during the Track Record Period.

Our managed data centres have been strategically located at not only the provincial capitals and relatively more economically developed cities, but also prefecture-level cities and administrative districts and counties where our network facilities, power source and our clients' business needs converge. Our operation coverage extended across 36 cities in the PRC for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023. Despite not having self-built data centres, as the IDC industry in the PRC has entered into a transformation stage in the mid-2010s, we worked with Supplier A in the formulation of management and maintenance standards and procedures for the operation of their data centres, provision of personnel support for the management and training their staff to operate data centres in Shandong Province. Our starting point in Qingdao laid the foundation of our lasting relationship with Supplier A. For details, please refer to the paragraph headed "Business — Our Strengths — Solid and mutually complementary relationships with upstream telecommunication carriers and cross-regional IDC resource suppliers in the area of data centre operation" of this section. Since then, our co-development and joint exploration of data centre operation with Supplier A have extended to provinces such as Jiangsu Province, Guangdong Province, Zhejiang Province, Guangxi Province, Hebei Province, Sichuan Province, Guizhou Province, Qinghai Province, Xinjiang Uygur Autonomous Region, the Inner Mongolia and the direct-administered municipalities of Shanghai and Chongqing.

Connectivity and power supply services

We provide connectivity lines, optical fibres, and bandwidth to our clients' requirements. As an IDC solution service provider, our managed data centres are connected to multi-carrier networks in the PRC. In addition, we also provide our clients with charts and analysis for data centre traffic, gateway environmental monitoring, configuration of domain name system. As a result, we can ensure minimal occurrence of connection outages including low download speed, network delay and packet loss.

Our managed data centres have made available high-capacity, stable and constant dual power supply, supported by separate power supply and diesel generators, to ensure that the power supply is uninterrupted in the event of the failure of one power source. Our maintenance staff make necessary adjustments to avoid the situation where the power supply capacity agreed with our clients is exceeded.

Our Directors confirm that save as the unforeseen interruptions that occurred preventing us from meeting the guaranteed Internet connectivity as disclosed under the paragraph headed "Business — Our services — IDC Solution Services — Operating data — Uptime for power and Internet connectivity" in this document and the foreseen interruption caused by the scheduled maintenance, testing or other technical adjustment, which have been duly notified to our clients in advance, there were no unexpected interruptions either in power or Internet connectivity during the Track Record Period and up to the Latest Practicable Date.

Customised bandwidth services

Per our clients' request, we may occasionally provide customised bandwidth services to them. Examples include integrated and unified content acceleration services. During the Track Record Period, we sourced such integrated services from our suppliers and sold to our clients with modifications.

Infrastructure management services

The stability of our colocation services is supported by our infrastructure management services serve to provide us with flexibility and resilience and set us apart from our competitors. We provide a full suite of infrastructure management services including server racking, data centre management services, server monitoring, management and maintenance services, server load balancing service, emergency reporting, network management and server middleware services, server security service, data backup, business continuity and disaster recovery services, system security services, technical consultation, general reporting, upgrade support and complaint handling.

Our in-house maintenance and network engineers stand by and manage remotely our managed data centres on a 365/24/7 basis. Our teams are deployed in certain regional operation centres, as well as on site, in order to provide two layers of management and support. We will assign dedicated staff as a relationship manager to our clients who procure over a certain number of cabinets. Our network engineers are skilled at basic system commands and hard disc maintenance, have a good understanding of servers of major brands, basic input/output system and router and switch operations, and are able to configure the IP address and independently resolve outage situations. Despite the fact that we do not have access to our clients' data, we have established effective operating protocols and standards to fulfil client specifications in relation to daily operation, maintenance and disaster recovery.

- *Server racking*. Once an IDC solution service agreement is executed, we are bound to complete the server racking within a designated timeframe, the process of which includes server rack installation, installation of power supply, connection of server to the Internet,

structured cabling, server power configuration, network parameter testing and debugging, configuration of spanning tree protocol, operational environment setup and pre-operational stress testing.

- *Data centre management services*. We strictly adhere to our self-built management and compliance protocols which are of high industry standards and used for operating and managing high-performance data centres from major telecommunication carriers in the PRC.

- *Server monitoring, management and maintenance services*. Our server management services allow clients to engage the services of our data centre staff to handle problems that occur to their servers. At the clients' request, our staff can fix operating system issues, perform emergency equipment replacement, implement server reboots, monitor real-time server status, report network faults within a short, prescribed timeframe and other tasks related to servers housed in our managed data centres. These services help clients minimise network outages and improve response and repair times. In the event of connection outrages, our skilled engineers will provide timely solutions or liaise with the IDC resource suppliers to solve the issue.

- *Server load balancing service*. We assure our clients that the upstream bandwidth and downstream bandwidth can achieve their maximum capacity in each node of their content delivery network. When website experiences a significant traffic spike, servers may not be able to duly answer or react to visiting requests. Our server load balancing services operated by our self-built traffic balancing system, are designed to provide load balancing facilities among the uplinks and downlinks to and from our client's server in their content delivery network system in order to share the increased traffic and therefore moderate the burden on main servers of our clients. On the other hand, where the bandwidth does not reach 95% of its full capacity, packet loss and delay should be kept at a designated low level.

- *Emergency reporting*. To ensure uninterrupted network connection, for every five minutes, our self-built network quality monitoring alarm system automatically tests the reachability of our clients' servers to the Internet. It will be deemed as an emergency if the clients' servers fail the test two times consecutively. In that circumstance, we will notify our clients of the situation and, per clients' instruction and authorisation, will resolve or assist the clients in resolving the situation. Our staff will not operate our clients' system, including browsing or revising servers' data, installing, or deleting servers' software and operating or terminating servers' applications, unless written consent is given by our clients. We regularly update our clients of the latest status.

- *Network management and server middleware services*. We assist our clients in designing and maintaining their private network or cloud system and place their system under the management of our round-the-clock monitoring system in order to provide

proactive maintenance response in case of abnormal incidents. Our maintenance engineer provides middleware installation services upon our clients' instruction and performs tuning services across a range of platforms.

- *Server security service.* To shield clients' servers and connections from external system threats or physical interference, we perform a vulnerability assessment protocol which offers a detailed reporting system with explanations regarding security risks and any other issues in the servers or applications. Our skilled maintenance and network engineers conduct regular assessments of various devices to determine the extent of threats from external attackers through different vulnerability assessment tools and techniques. In case of forthcoming external attack, we determine the source and nature of the attack, formulate responsive strategies, minimise the impact on bandwidth flow and migrate the system to backup source of clean traffic, via our collective management command system, in order to ensure the orderly operation of our clients' business.

- *Data backup, business continuity and disaster recovery services.* In anticipation of such disastrous circumstances as the outbreak of fire hazard, power and network breakdown, our managed data centres have (i) efficient fire suppression system; (ii) redundant diesel generators in addition to our dual power supply system; and (iii) collective command management system which connects servers and nodes in order to minimise the impact of the breakdown of one system. We have a multi-node backup system across our managed data centres to achieve real-time backup and restoration in case of failure of one of our managed data centres.

- *System security services.* Our staff have access control, firewall management, intrusion protection and vulnerability protection services. Although our managed data centres are available to our clients, at any time, prior to their entry, they are required to inform us of the reason for entry, the anticipated activities, expected arrival and departure time and required assistance. Our staff will verify the identity of the clients' representative before authorising entry into our operated data centres and issuing access card.

- *Technical consultation.* Upon our clients' enquiries, we identify technical issues and provide appropriate strategies and solutions to them.

- *General reporting.* We proactively inform our clients of the progress update of initial server installation, provide issue handling update, issue data centre cutover and migration notice, issue closure notice in the event of large-scale events and holidays and regularly update them of any change of service content, the handling progress of any complaints and any latest system maintenance update. We also conduct client feedback reviews occasionally to evaluate our service quality.

- *Upgrade support.* We provide advice as to equipment upgrade, alternation, and installation, and provide upgrade operation in assisting clients in completing network connection.

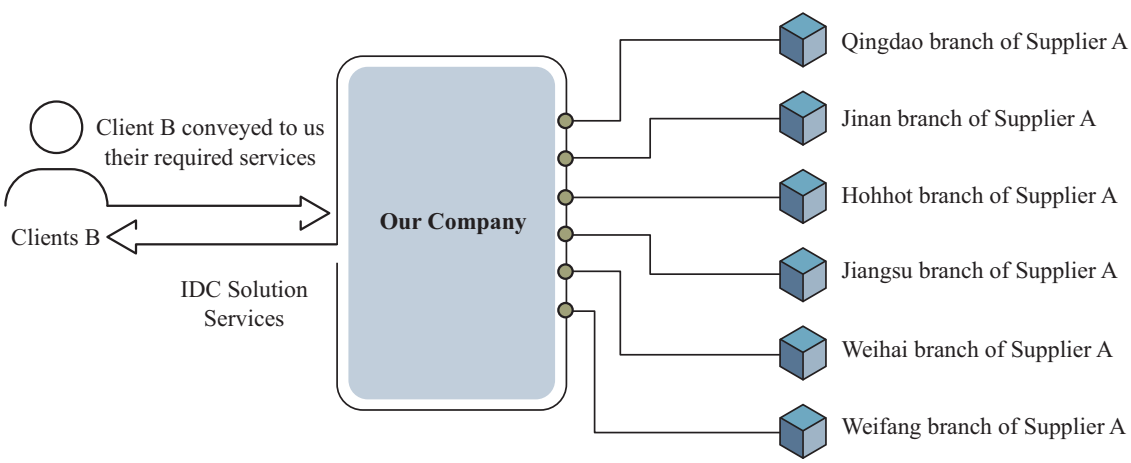
- *Complaint handling.* We have a complaint hotline for our clients who can file a complaint in relation to network quality, client service quality and technical support quality. We will report to our clients within a short time after the complaint is filed and will provide a written report within 24 hours after the issue is resolved.

Our infrastructure management services are tailored to meet the specific objectives of individual clients. We strive to help our clients reduce their costs, re-engineer existing processes, hopefully improve the quality of service delivery and realise a better return on their investment.

Case study

Background. Client B is an Internet company with a strong Internet foundation, based in the PRC and listed on the Stock Exchange. Client B looked for data centre resources including bandwidth and cabinets to accommodate their servers in multiple areas of the PRC including Qingdao, Jinan, Weihai, Weifang, Hohhot and Xuzhou for the delivery of the content provided by them in such areas. Client B required the data centre resources of certain amount of bandwidth capacity and a number of cabinets to be provided by certain reliable state-owned telecommunication carriers within their budgets.

Solution. Our Group incorporated the information provided by Client B above, liaised with different branches of Supplier A and proposed an optimal IDC solution to Client B by giving it reliable bandwidth capacity at a competitive price after considering our scheduling capability and infrastructure management services including but not limited to server racking, data centre management services, server monitoring, management and maintenance services and server load balancing services. For details, please refer to the paragraph headed "Business — Our Services — IDC Solution Services — Infrastructure management services" in this document.



Operating data

Number of clients and average revenue per client

The following table sets out number of our clients who engaged us for our IDC Solution Services for the years/periods indicated:

	FY2020	FY2021	FY2022	Six months ended 30 June 2022	Six months ended 30 June 2023
Number of clients[Note 1]	42	36	35	27	31

Note 1: Each of the clients of our IDC Solution Services signed an annual master agreement with our Group and thus the number of clients was the same as the number of active contracts.

	FY2020	FY2021	FY2022	Six months ended 30 June 2022	Six months ended 30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Total revenue from IDC Solution Services	249,251	437,232	538,662	261,240	295,007
Average revenue per client	5,935	12,145	15,390	9,676	9,516

During the Track Record Period, we exhibited a general decline in the number of clients, despite a general consistent increase in our total revenue. The average revenue per client consistently increased from RMB5.9 million per client for the year ended 31 December 2020 to RMB15.4 million per client for the year ended 31 December 2022 and remained stable at RMB9.7 million for the six months ended 30 June 2022 and RMB9.5 million for the six months ended 30 June 2023. This was consistent with our strategy to focus on our major clients who could general profits businesses to us and reduce unprofitable operations.

Number of new clients and repeating clients

The following table sets out number and operating data of our new clients and repeating clients who engaged us for our IDC Solution Services for the years/periods indicated:

	FY2020			FY2021			FY2022			Six months ended 30 June 2022			Six months ended 30 June 2023		
	Number of contracts	Revenue (RMB'000)	Gross profit margin (%)	Number of contracts	Revenue (RMB'000)	Gross profit margin (%)	Number of contracts	Revenue (RMB'000)	Gross profit margin (%)	Number of contracts	Revenue (RMB'000) (unaudited)	Gross profit margin (%)	Number of contracts	Revenue (RMB'000)	Gross profit margin (%)
New clients[Note1]	8	27,115	14.8	6	39,354	8.9	11	7,219	10.3	4	4,750	2.2	9	4,623	15.6
Repeating clients	34	222,136	15.7	30	397,878	11.7	24	531,443	12.4	23	256,490	13.5	22	290,384	15.4

Note 1: New clients refer to the clients which did not have any transaction with our Group in the past five years.

During the Track Record Period, existing clients constituted the major source of our revenue under the provision of our IDC Solution Services. The overall gross profit margin of the businesses from our new clients is generally lower mainly because we tend to offer more competitive pricing to attract our target clients who are usually major industry leaders. As Client H and Client J significantly increased their demand and purchased our IDC Solution Services in 2021, we offered them more competitive prices, resulting in a remarkable drop in the gross profit margin of our new clients for the year ended 31 December 2021. The revenue generated from our repeating clients constitute the majority of the total revenue in our IDC Solution Service segment.

Bandwidth utilisation rate

The following table sets out the bandwidth utilisation rate of our IDC Solution Services during the Track Record Period:

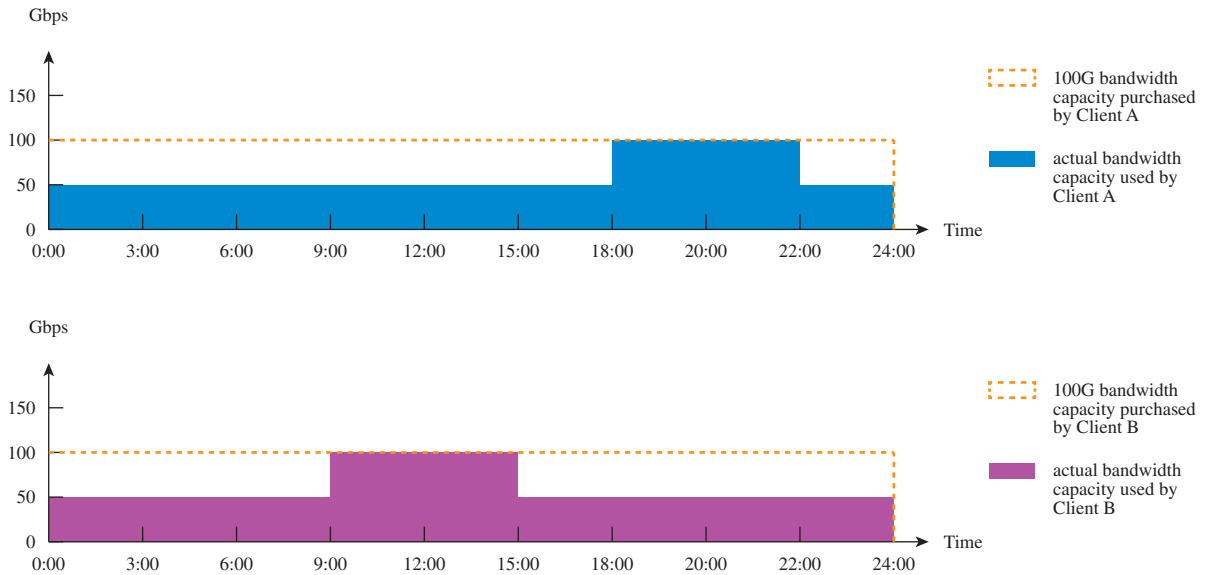
	FY2020	FY2021	FY2022	Six months ended 30 June 2023
Utilisation rate of the bandwidth usage through packet ports procured from a major branch of Supplier A *Note 1*	118.3%	114.9%	124.4%	121.4%

Note 1: Utilisation rate was arrived at from the client's bandwidth usage in a major branch of Supplier A divided by the amount of bandwidth usage provided by the packet ports of that particular branch in a period of time. Since it is unduly burdensome to extract all data of bandwidth usage from the whole IDC Solution Service operation in order to compute the utilisation rate, our Directors considered it representative enough to extract the data from the operation of a major branch of Supplier A to provide a fair presentation of our Group's operational efficiency.

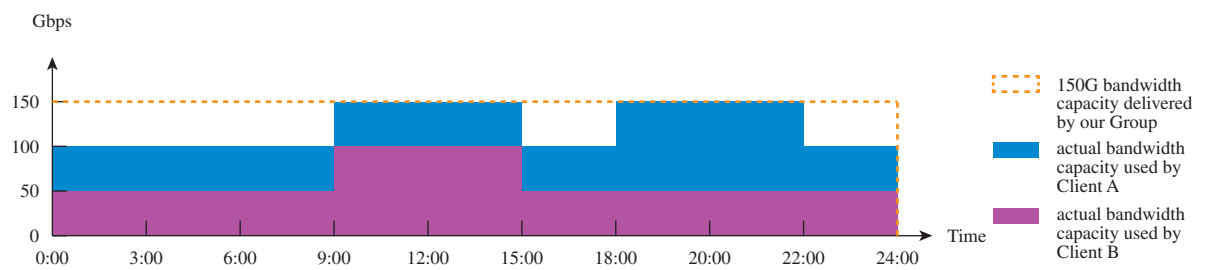
During the Track Record Period, the utilisation rate of the bandwidth procured from our suppliers exceeded 100%. With our bandwidth scheduling and allocation capability, we have been able to limit the number of packet ports we procure from our suppliers and increase the rate of repeatedly using the bandwidth capacity under the same packet ports. This arrangement of

bandwidth resource reallocation will not adversely affect the uptime for Internet connectivity or the quality of the bandwidth services provided by our Group to our clients. As different clients may have different peak hours of bandwidth usage, we may allocate the idle bandwidth capacity from one client to another. The following diagram represents a simplified illustration of how the bandwidth allocation works:

Without allocation



With allocation



On a typical day, each of Client A and Client B requires bandwidth capacity ranging from 50G to 100G at varying peak hours. If no bandwidth allocation were to be performed in this example, our Group would have to deploy 200G packet ports (two 100G packet ports) which would deliver 100G bandwidth capacity to each of Client A and Client B. With bandwidth allocation, our Group is only required to deploy 150G packet ports which could deliver enough bandwidth flexibly from 50G to 100G to serve Client A and Client B as Client A's peak hours (between 18:00 to 22:00) do not overlap with Client B's peak hours (between 09:00 to 15:00). During the Client B's peak hours, the idling bandwidth capacity of the packet port serving Client A is 50G (only 50G bandwidth capacity of the 100G bandwidth capacity required has been used by Client A) which could be allocated to serve Client B with 100G (the idling 50G bandwidth capacity released from

Client A + 50G). In this regard, our Group deploys 150G packet ports to satisfy a total demand of 200G bandwidth capacity, realising the utilisation rate of 133.3%. As illustrated above, the allocation of idling bandwidth capacity from the packet port serving Client A will not become a factor adversely affecting the quality of bandwidth or uptime for Internet connectivity.

According to the Frost and Sullivan Report, bandwidth utilisation represents the efficiency and effectiveness of utilising the network resources provided by the IDC service provider. It measures the percentage of the allocated network bandwidth that is actively used for data transmission and communication purposes under the data centre environment. A high bandwidth utilisation rate indicates that a significant portion of the available network capacity is being effectively utilised, which suggests efficient data transfer and network performance. Conversely, a low utilisation rate may indicate underutilisation of the allocated bandwidth, potentially resulting in wasted resources or insufficient network for the need of the IDC service providers. It is estimated that the bandwidth utilisation rate for non-self-built IDC service providers in the PRC ranges from 80% to 140%.

Our PRC Legal Adviser is of the view that given (i) our Group charged our clients by the 95th Percentile Bandwidth Charging Model on a pay-as-you-use basis; (ii) contractually we have an established reconciliation process to resolve any dispute as to the amount of chargeable bandwidth usage; and (iii) there is no clause in the colocation and infrastructure management service agreement which expressly prohibits such bandwidth allocation arrangement, the above arrangement will not be in breach of the colocation and infrastructure management service agreement with our clients.

Uptime for power and Internet connectivity

During the Track Record Period, our Group provided 100% uptime for power.

The following table sets out the actual uptime for Internet connectivity in relation to our five largest clients during the Track Record Period.

	For the years ended 31 December			For the six months ended 30 June
	2020	2021	2022	2023
	%	%	%	%
Client A	99.99	99.99	99.99	99.99
Client B	99.99	99.99	99.84	99.90
Client F	99.99	99.89	99.71	99.88
Client G	99.99	99.99	99.99	99.99
Client H	99.99	99.75	99.67	99.99
Client I	99.99	99.90	99.48	99.76
Client J	—	99.99	99.99	99.94
Client K	99.99	99.99	99.99	99.99

Note : actual uptime for Internet connectivity is calculated based on the time of uninterrupted Internet connectivity provided for a client of the financial year or stub period the divided by the total time of Internet connectivity provided for such client of the financial year or stub period.

For the six months ended 30 June 2023, there were several occasions on which the actual uptime for Internet connectivity of certain clients fell below 99.90%, mainly attributable to the suppliers' bandwidth fluctuation.

Pursuant to our colocation and infrastructure management service agreement with our clients, we guarantee our clients 99.90% uptime for Internet connectivity. Therefore, on the several occasions mentioned above, we were required to compensate our clients. The following table sets out the total compensation from our Group to our clients for the years ended 31 December 2020, 2021 and 2020 and the six months ended 30 June 2023, respectively:

	For the years ended 31 December			For the six months ended 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
The total compensation to clients	32	748	2,149	1,886

Nevertheless, we were fully indemnified by our suppliers for the abovementioned compensation under the relevant data centre business agreements, pursuant to which our suppliers would guarantee us up to 99.90% uptime for Internet connectivity.

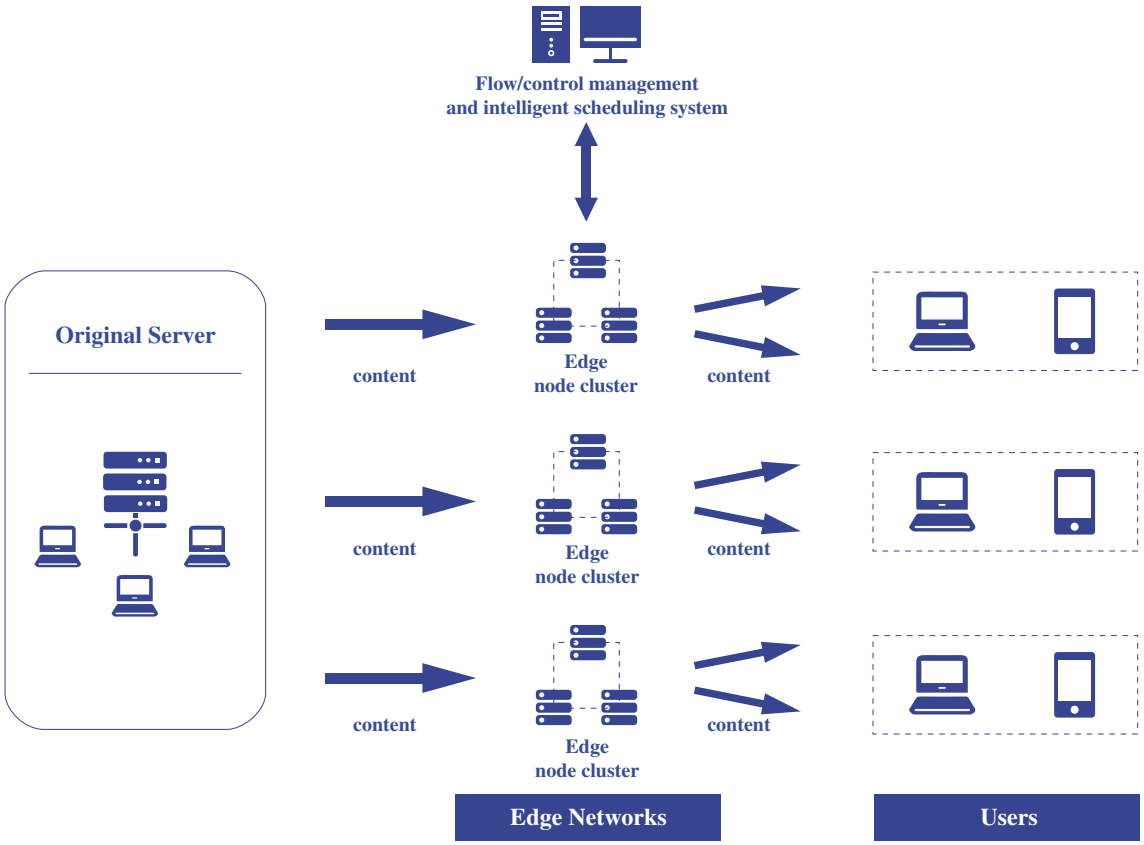
Edge Computing Services

Our Edge Computing Service or edge cloud, under the brand of *Lingjing Cloud*, is a form of infrastructure and computing service distinguishable from our IDC Solution Services in that they enable our clients and their customers to build, secure and deliver digital experiences, at the edge of the Internet. This service represents the convergence of the CDN with functionality which has been traditionally delivered by hardware-centric appliances such as DDoS solutions. It aims to move computing power and logic as close to the end-user as possible. We believe that when milliseconds matter, processing at the edge is an ideal way to handle highly dynamic and time-sensitive data.

As at the Latest Practicable Date, our Edge Computing Services include:

— *CDN services (under the brand of Lingjing Cloud):* an infrastructure composed of hundreds of servers distributed at various points around the Internet, linked together by software that controls where media content objects are stored and how they should be delivered to end-users, providing delivery of digital media to large and nation-wide audiences via (1) the HTTP/Web delivery (digital delivery of rich media content including video, music, games, software and social media); (2) the streaming delivery (on-demand and/or live streaming for major file formats); and (3) the custom CDN (special construction of our network to meet the unique demands content providers face in delivering rich media content to large audiences of demanding Internet end-users);

The following diagram sets out the architecture of our CDN services:



The computing process

CDN components consist of (i) the original server and CDN node clusters as infrastructure; and (ii) intelligent dispatch system and flow/control management and intelligent scheduling system which perform the computing process.

The original server and CDN node clusters as infrastructure: We source from suppliers and deploy server clusters in a large number of locations, rely on the public Internet to connect the clusters and store the popular content objects in local caches, which are computing resources used to store frequently accessed data for rapid access. All components of our CDN network work seamlessly together. Content providers upload content to their own servers, which are connected directly to our network. Upon request from the users, we distribute the content to one or more mass storage server clusters which feed hundreds of specially configured servers at each content delivery location nationally. The content is delivered directly to users through our networks.

Intelligent dispatch system and flow/control management and intelligent scheduling system which perform computing process: Intelligent dispatch system such as optimisation algorithms is employed in an effort to effectively manage and allocate these relatively scarce resources. For example, our computing processes (i) monitor the bandwidth flow of the edge nodes and automatically adjust the volume in order to avoid traffic jam, (ii) monitor the downloading

speed in edge nodes and automatically adjust the available bandwidth volume, (iii) survey and record the actual bandwidth flow of the edge nodes and automatically devise flow allocation plan, (iv) delete the data stored in cache per the written rules and free up space for cache of new files, and (v) slice the users' request of content in order to reduce the flow pressure of certain popular content. Our flow/control management and intelligent scheduling system is an indispensable part of our CDN services which performs computing process based on the CDN infrastructure. During the computing process, publicly available data such as movies on online video platforms are the primary subject of the cache computing process and flow/control management and scheduling processes, which are controlled by our Group rather than by our client. Our clients' business data or end-users' personal data are not processed in our system.

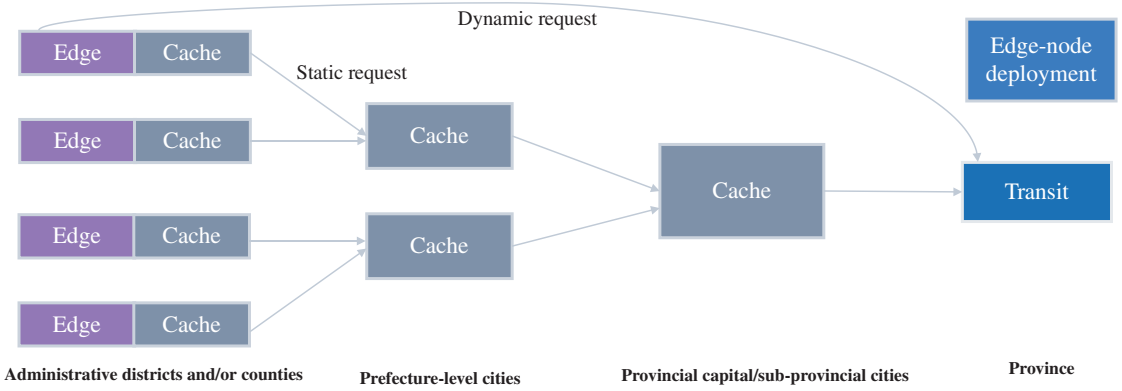
Case study

Background. Our client operates one of the largest video-on-demand over-the-top streaming platforms. With the highly competitive nature of the client's industry, our client looked for a content delivery network of (i) low-latency, low-lagging and high-speed downloading content delivery services; (ii) accurate edge node deployment; and (iii) low Back-to-source and high cache hit rates, which reduce the time required for information to be delivered to users so as to outperform its competitors and respond to any trend movement promptly.

The following table sets out the back-to-source rate and cache hit rate under our Edge Computing Services during the Track Record Period:

For the year ended 31 December						For the six months ended 30 June			
2020		2021		2022		2022		2023	
Back-to source rate	Cache hit rate	Back-to source rate	Cache hit rate	Back-to source rate	Cache hit rate	Back-to source rate	Cache hit rate	Back-to source rate	Cache hit rate
—	—	—	—	7%	93%	—	—	3%	97%

Solution. Our *Lingjing Cloud's* module provided a comprehensive solution to our clients for the above need. With our self-developed edge DNS, edge-node deployment system and multi-layered cache technology, we could improve the stability and utilisation rate of our edge nodes, which have sunk into lower tier county level, making their customers closer to the nodes and remarkably enhancing the connectivity speed. The following shows our multi-layered cache technology which was applied to our client's operation



"Cache" refers to a hardware or software component that stores data so that future requests for the same data can be served faster. "Transit" refers to a network transit hub that is the source of the content or close to the source of content. "Edge node deployment" refers to the deployment of a network, which provides an interface for communicating with other nodes, allowing users to request content at the edge of the Internet instead of the source of the content. An accurate deployment of edge nodes can shorten users' time information served.

"Dynamic request" refers to the request, which is an enquiry for information from end-users, that is not served by any cache and therefore reaches directly the origin webserver. Dynamic request relates to the personal information of end-users, such as user registration, user login, user management and invoice management. In other words, all enquiries for information involving the personal data of end-users are processed as dynamic requests. In contrast, all requests that are served from a cache do not count as a dynamic request but static request, which mainly relates to publicly available data, such as short videos, long videos, web pages, game graphics and large files. Given that only dynamic requests relate to personal information and our *Lingjing Cloud* only processes static requests that relate to publicly available data, the Group does not process any personal data of end-users.

The operation of our Edge Computing Services is under the same ICP Licences as our IDC Solution Services, and its operation is limited to the geographical areas where the ICP Licences permit. In addition, our Edge Computing Services are performed on-site or adjacent to a specific data source. Our edge computing infrastructure, primarily constituting servers and specially-configured edge servers and storage servers owned, operated and deployed by us, is installed into the supplier-owned data centres and facilities, forming the edge nodes of our Edge Computing Services. Thus the location of our edge nodes define the limit of the operation of our Edge

Computing Services. For details of the operation of our Edge Computing Services, please refer to the paragraph headed "Business — Our Business Models — Value chain, flow and business models of our IDC Solution Services and Edge Computing Services" in this document.

Operating data

Number of clients

The following table sets out number of our clients who engaged us for our Edge Computing Services for the years/periods indicated:

	FY2020	FY2021	FY2022	Six months ended 30 June 2022	Six months ended 30 June 2023
Number of clients[Note 1]	N/A	N/A	2	0	9

Note 1: Each of the clients of our Edge Computing Services signed an annual master agreement with our Group and thus the number of clients was the same as the number of active contracts.

Number of new clients and repeating clients

The following table sets out number and operating data of our new clients and repeating clients who engaged us for our Edge Computing Services for the years/periods indicated:

	FY2022			Six months ended 30 June 2022			Six months ended 30 June 2023		
	Number of contracts	Revenue	Gross profit margin	Number of contracts	Revenue	Gross profit margin	Number of contracts	Revenue	Gross profit margin
		RMB'000	(%)		RMB'000 (unaudited)	(%)		RMB'000	(%)
New clients[Note1]	2	5,202	18.4	—	—	—	8	674	23.2
Repeating clients	—	—	—	—	—	—	1	4,611	24.4

Note 1: New clients refer to the clients which did not have any transaction with our Group in the past five years.

Our Edge Computing Services were launched and started to realise revenue in 2022. The gross profit margin of our Edge Computing Services is generally higher than that of our IDC Solution Services.

Overlapping clients between our IDC Solution Services and Edge Computing Services

The following table sets out the number of overlapping clients between our IDC Solution Services and Edge Computing Services and their contribution to revenue as compared with the non-overlapping ones:

	For the year ended 31 December						For the six months ended			
	2020		2021		2022		2022		2023	
	Number of client	Contribution to revenue	Number of client	Contribution to revenue	Number of client	Contribution to revenue	Number of client	Contribution to revenue	Number of client	Contribution to revenue
								(unaudited)		
Overlapping	—	—	—	—	2	212,493	—	—	2	74,923
Non-overlapping	42	249,251	36	437,232	33	331,371	27	261,240	36	225,369
Total	42	249,251	36	437,232	35	543,864	27	261,240	38	300,292

Number, location and bandwidth usage of the edge nodes established by our Group

The following table sets out the breakdowns of number, location and bandwidth usage of the edge nodes under the Edge Computing Services established by our Group for the years/periods indicated:

		For the year ended 31 December						Six months ended 30 June 2023		Eight months ended 31 August 2023	
		2020		2021		2022					
Provinces/the direct-administered municipality	Locations of data centres	Number of edge nodes	Approximate bandwidth usage (in Gbps)	Number of edge nodes	Approximate bandwidth usage (in Gbps)	Number of edge nodes	Approximate bandwidth usage (in Gbps)	Number of edge nodes	Approximate bandwidth usage (in Gbps)	Number of edge nodes	Approximate bandwidth usage (in Gbps)
Beijing	Miyun (密雲)	—	—	—	—	1	166	—	—	—	—
Shandong	Weifang (濰坊)	—	—	—	—	4	660.54	4	70	4	70
	Weihai (威海)	—	—	—	—	2	6	5	99	5	144
	Zibo (淄博)	—	—	—	—	—	—	2	33	2	47
	Dongying (東營)	—	—	—	—	—	—	2	30	2	50
	Qingdao (青島)	—	—	—	—	—	—	7	291.40	7	331.40
	Linyi (臨沂)	—	—	—	—	—	—	1	5	1	10
	Rizhao (日照)	—	—	—	—	—	—	1	9	2	45
	Jining (濟寧)	—	—	—	—	—	—	1	10.48	1	10.48
Anhui	Ma'anshan (馬鞍山)	—	—	—	—	—	—	2	58	2	119
Jiangsu	Wuxi (無錫)	—	—	—	—	—	—	1	120	1	240
Inner Mongolia	Hohhot (呼和浩特)	—	—	—	—	—	—	1	248.01	1	310.34
Shanxi	Taiyuan (太原)	—	—	—	—	—	—	—	—	1	120
Hebei	Hengshui (衡水)	—	—	—	—	—	—	—	—	1	50
Total		—	—	—	—	7	832.54	27	973.89	30	1,547.22

During the Track Record Period, our Group deployed more edge nodes and edge servers in Shandong Province as our newly established and experimental CDN infrastructure, which is designated to be applicable to different regions in the PRC. The bandwidth usage of our Edge

Computing Services was relatively higher in Qingdao and Hohhot where we cross-sold our Edge Computing Services to our existing IDC Solution Service clients. The locations of our edge nodes are mainly determined by our clients' demand and adjusted by taking into account a number of other factors, such as (i) the geographical distribution of our IDC Solution Services as it would be more cost-effective to utilise our internal resources and leverage our existing customer network to promote our Edge Computing Services especially in areas where we have established a solid client base, such as Shandong and Inner Mongolia; and (ii) the limited resources to develop CDN infrastructure, resulting in the concentration of our investment in core locations of our IDC Solution Services as pilot provinces before our proposed expansion into other geographical regions according to our implementation plans with the [REDACTED] received from the [REDACTED]. On the other hand, the presence or availability of optic fibre/high-speed connections is not a major factor we take into account when determining the locations of our edge nodes because the distance from the content to the users plays a more dominant role than the speed of data transmission.

The resources required for the establishment of edge nodes include cabinets, servers, specifically-configured edge servers, storage servers and softwares owned and deployed by us, installed into the supplier-owned data centres and facilities.

During the Track Record Period, in response to Client B's and Client I's requests, we established edge servers in the prefecture-level cities and administrative districts and counties in the PRC. The following table sets out the locations of such servers and the latency reduction with our Edge Computing Services in the following regions as at the Latest Practicable Date:

Provinces	Cities	County-level cities	Latency without Edge Computing Services (in second)	Latency with Edge Computing Services (in second)
Shandong	Qingdao (青島)	Hongdao (紅島)	0.221	0.177
		Jiaonan (膠南)	0.213	0.136
		Laixi (萊西)	0.201	0.113
		Laoshan (嶗山)	0.189	0.044
		Huangdao (黃島)	0.190	0.129
	Weihai (威海)	Rongcheng (榮成)	0.286	0.082
		Wendeng (文登)	0.355	0.050
		Huancui (環翠) — Economic and Technological Development Area (經濟技術開發區)	0.224	0.113
		Huancui (環翠) — Weihai Torch High-tech Industrial Development Zone (威海火炬高新技術產業開發區)	0.238	0.036
		Rushan (乳山)	0.259	0.129

Provinces	Cities	County-level cities	Latency without Edge Computing Services (in second)	Latency with Edge Computing Services (in second)
	Weifang (濰坊)	Binhai (濱海)	0.258	0.143
	Zibo (淄博)	Linzi (臨淄)	5.721	0.146
		Yiyuan (沂源)	0.211	0.162
	Dongying (東營)	Dongcheng (東城)	0.245	0.096
		Guangrao (廣饒)	0.230	0.140
	Rizhao (日照)	Ju County (莒縣)	0.269	0.108
		Wulian (五蓮)	0.257	0.134
	Linyi (臨沂)	Louzhuang (羅莊)	0.176	0.120
	Dezhou (德州)	Dezhou Economic and Technological Development Zone (德州經濟技術開發區)	0.228	0.135
Inner Mongolia	Hohhot (呼和浩特)	Horinger County (和林格爾縣)	0.322	0.125
Hebei	Hengshui (衡水)	—	0.800	0.493
Shanxi	Taiyuan (太原)	Xiaodian (小店)	0.561	0.131
Jiangsu	Wuxi (無錫)	Xinwu (新吳)	1.625	0.194
	Xuzhou (徐州)	Yunlong (雲龍)	1.637	0.415
Anhui	Ma'anshan (馬鞍山)	Dangtu (當涂)	0.412	0.261
		He Country (和縣)	0.431	0.290

Arrangement to develop Edge Computing Services

Riding on the policy of "channeling computing resources from the eastern areas to the western regions (東數西算)" and the development of metaverse which is currently at a conceptual stage, in the PRC, as at the Latest Practicable Date, we had entered into the Cooperation Framework Agreement on the Development of Metaverse and Industrial Digitalisation (推進元宇宙+行業數字化建設合作框架協議) with the Qinghai branch of Supplier A (the "**Qinghai Branch**") and a Internet digital content service provider wholly owned by Supplier A, pursuant to which the parties will commence the cooperation as to the development of 5G innovation application, cloud-network integration application, smart voice service, the concept of metaverse and industrial application (the "**Edge Computing Cooperation**").

Against this backdrop, the operation of the Edge Computing Cooperation requires the use of AI computing equipment and Edge Computing Services. Our Group, the Qinghai Branch and an Independent Third Party (the "**Edge Computing Cooperation Partner**") had a series of arrangements whereby (i) our Group (a) purchased AI computing equipment from the Edge Computing Cooperation Partner, which had the channel to source such equipment, and in turn leased it back to the Edge Computing Cooperation Partner; and (b) provided Edge Computing

Services to the Edge Computing Cooperation Partner; (ii) the Edge Computing Cooperation Partner would lease the AI computing equipment and provide setup services and maintenance services of the AI computing equipment to the Qinghai Branch; and (iii) the Qinghai Branch supported the Edge Computing Cooperation with its own IDC infrastructure.

As at the Latest Practicable Date, we have not generated any operating income under this cooperation.

ICT Services and Other Services

Custom-fit ICT Services

Our custom-fit ICT services include providing information communications technology solution to our clients, on a project basis, system development and maintenance, consultation services and provision of cloud computing hardware resources. We usually provide our ICT Services and Other Services to our existing clients or other clients. The nature of operation is usually project-based, per clients' enquiries and request. During the Track Record Period, examples of our ICT services included:

- resolving technical difficulties in relation to the establishment of a smart agricultural system;
- providing necessary hardware resources in support of our client's development of edge cloud computing system; and
- providing technical consultation and solutions to a platform constructing and promoting the automated guided vehicular system.

Other Services

We also provide short message service, phone plan recharge service and WeChat corporate mini-application development service to our enterprise clients.

- *Short Message Service.* We provide our corporate clients with verification, marketing, and business text messaging services to be sent to their clients or target audience.
- *Phone Plan Recharge Service.* Our system enables our clients' clients to recharge their phone plans with our clients' recharge and settlement platform.
- *WeChat Corporate Mini-application Development Service.* With our established relationship with Supplier A, we explore with them the development of mini-application on the WeChat platform. Our Group and Supplier A entered into the mini-application cloud product framework agreement (the "**Mini-App Framework Agreement**") in April 2021 for a term of two years. Under the Mini-App Framework Agreement, upon the receipt of the order from Supplier A, we have to finish the development of the mini-application ready for online operation within 14 days. The types of mini-application

mainly include the functionality of order management, product management, logistics payment management, membership development, sales management and customer service management for various industries.

During the Track Record Period, our Group (i) sourced data centre resources from Supplier A; and (ii) cooperated with Supplier A in the areas such as IDC resources, traffic payment (流量統付), group MMS (集團短彩信), dedicated internet (語音專線), video conferencing and other information system applications, pursuant to a strategic framework cooperation agreement. We are of the view that this is a deriving business resulting from the continuous development of our business relationship with Supplier A regarding our IDC Solution Services.

According to the Frost and Sullivan Report, it is common market practice for state-owned telecommunication carriers to procure ICT services from independent parties which have the relevant and reliable expertise. Accordingly, Supplier A is both our client and our supplier. For details of our overlapping clients and suppliers, please refer to the paragraph headed "Business — Our Suppliers — Overlapping of clients and suppliers" of this section.

For the years ended 31 December 2020, 2021 and 2022, our revenue from ICT Services and Other Services was approximately RMB26.8 million, RMB27.0 million and RMB4.9 million, respectively.

Operating data

Number of clients and average revenue per client

The following table sets out number of our clients who engaged us for our ICT Services and Other Services for the years/periods indicated:

	FY2020	FY2021	FY2022	Six months ended 30 June 2022	Six months ended 30 June 2023
Number of clients	14	21	8	6	13

	FY2020	FY2021	FY2022	Six months ended 30 June 2022	Six months ended 30 June 2023
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Total revenue from ICT Services and Other Services	26,813	27,044	4,889	4,082	1,570
Average revenue per client	1,915	1,288	611	680	121

Our Directors confirm that during the Track Record Period, none of our Group's contracts in any of our Group's operating segments were loss-making.

OUR CLIENTS

Our clients primarily consist of top-notch cloud computing service providers, Internet companies and blue-chip listed companies in the PRC. During the Track Record Period, we had a relatively low non-renewal rate of the colocation and infrastructure management agreements upon expiry. The average annual churn rates are defined as the ratio of annual service revenue from agreements which terminated or expired without renewal during the year to the total annual service revenue for the preceding year. The average annual churn rates of the Group were 2.9%, 2.7% and 3.9% for the years ended 31 December 2020, 2021 and 2022 respectively (the average annual churn rate is not applicable to stub period). Our client recognition and service quality can be evidenced by such a low churn rate and long-lasting relationship with them.

During the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our revenue increased from approximately RMB276.1 million in FY2020 to approximately RMB464.3 million in FY2021, representing an increase of 68.2%; and from approximately RMB464.3 million in 2021 to RMB548.8 million in FY2022, representing an increase of 18.2% and from RMB265.3 million for the six months ended 30 June 2022 to RMB301.9 million for the six months ended 30 June 2023, representing an increase of 13.8%. Our revenue generated from our largest client for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 accounted for 26.4%, 28.7%, 20.5% and 35.6%, respectively, of our revenue during those periods. Our revenue generated from our five largest clients for each year/period during the Track Record Period accounted for 71.3%, 74.8%, 77.5% and 87.0%, respectively, of our revenue during the same periods. During the Track Record Period, our clients generally settled their payments through bank transfer.

The following table shows the details of our five largest clients during the Track Record Period:

For the year ended 31 December 2020:

Rank	Name of client [Note 9]	Background and principal business	Type of services provided	The year in which the client first started to have business relationship with our Group	Approximate total amount of revenue	% of revenue	Credit terms
					(RMB'000)		
1	Client A [Note 1]	Provision of Internet technology services	IDC Solution Services	2018	72,862	26.4%	Within 30 Business Days after issue of invoice
2	Client B [Note 2]	Provision of Internet technology services	IDC Solution Services, ICT Services and Other Services	2018	68,079	24.7%	To be paid and settled quarterly within 30 days after issue of quarterly invoice
3	Client F [Note 3]	Provision of Internet technology services	IDC Solution Services	2019	26,901	9.7%	Within 60 days after issue of invoice
4	Client G [Note 4]	Provision of Internet technology services	IDC Solution Services	2019	16,188	5.9%	Within 30 Business Days after issue of invoice
5	Client H [Note 5]	Provision of cloud computing and Artificial Intelligence technology services	IDC Solution Services	2020	12,925	4.7%	Within 30 Business Days after issue of invoice
Total					196,955	71.3%	

For the year ended 31 December 2021:

Rank	Name of client [Note 9]	Background and principal business	Type of services provided	The year in which the client first started to have business relationship with our Group	Approximate total amount of revenue	% of revenue	Credit terms
					(RMB'000)		
1	Client B [Note 2]	Provision of Internet technology services	IDC Solution Services	2018	133,409	28.7%	To be paid and settled quarterly within 30 days after issue of quarterly invoice
2	Client H [Note 5]	Provision of cloud computing and Artificial Intelligence technology services	IDC Solution Services	2020	77,640	16.7%	Within 30 Business Days after issue of invoice
3	Client F [Note 3]	Provision of Internet technology services	IDC Solution Services	2019	56,859	12.2%	Within 60 days after issue of invoice
4	Client I [Note 6]	Provision of software technology services	IDC Solution Services	2020	43,369	9.3%	Within 30 days after issue of invoice
5	Client A [Note 1]	Provision of Internet technology services	IDC Solution Services	2018	35,776	7.7%	Within 15 days after the end of settlement cycle
Total					347,053	74.8%	

For the year ended 31 December 2022:

Rank	Name of client[Note 9]	Background and principal business	Type of services provided	The year in which the client first started to have business relationship with our Group	Approximate total amount of revenue (RMB'000)	% of revenue	Credit term
1	Client B[Note 2]	Provision of Internet technology services	IDC Solution Services and Edge Computing Services	2018	112,615	20.5%	To be paid and settled quarterly within 30 days after issue of quarterly invoice
2	Client J[Note 7]	Provision of Internet technology services	IDC Solution Services and Edge Computing Services	2021	99,881	18.2%	Within 30 days after issue of invoice
3	Client K[Note 8]	Provision of cloud computing services	IDC Solution Services	2021	82,347	15.0%	Within 60 days after the client's receipt of payment from their customers
4	Client I[Note 6]	Provision of software services	IDC Solution Services	2020	71,243	13.0%	Within 30 days after issue of invoice
5	Client H[Note 5]	Provision of cloud computing and Artificial Intelligence technology services	IDC Solution Services	2020	59,306	10.8%	Within 30 Business Days after issue of invoice
Total					425,392	77.5%	

For the six months ended 30 June 2023:

Rank	Name of client[Note 9]	Background and principal business	Type of services provided	The year in which the client first started to have business relationship with our Group	Approximate total amount of revenue (RMB'000)	% of revenue	Credit term
1	Client K[Note 8]	Provision of cloud computing services	IDC Solution Services, ICT Services and Other Services	2021	107,414	35.6%	Within 60 days after the client's receipt of payment from their customers
2	Client J[Note 7]	Provision of Internet technology services	IDC Solution Services	2021	62,863	20.8%	Within 28 days after issue of invoice
3	Client B[Note 2]	Provision of Internet technology services	IDC Solution Services and Edge Computing Services	2018	50,760	16.8%	To be paid and settled quarterly within 30 days after issue of quarterly invoice
4	Client I[Note 6]	Provision of software services	IDC Solution Services and Edge Computing Services	2020	24,167	8.0%	Upon the issue of invoice
5	Client H[Note 5]	Provision of cloud computing and Artificial Intelligence technology services	IDC Solution Services	2020	17,285	5.8%	Within 30 Business Days after issue of invoice
Total					262,489	87.0%	

Note 1: Client A is a subsidiary of a variable interest entity of one of the large-scale software and internet services companies based in the PRC and listed on the Stock Exchange, recording revenue for the year ended 31 December 2022 of approximately RMB8.2 billion with a market capitalisation of approximately HK$9.3 billion as at the Latest Practicable Date. Revenue generated by Client A for the three years ended 31 December 2022 was approximately RMB72.9 million, RMB35.8 million and RMB8.4 million, respectively. We became acquainted with Client A through our active business solicitation.

Note 2: Client B is a variable interest entity of an Internet company with a strong Internet foundation, based in the PRC and listed on the Stock Exchange, recording revenue for the year ended 31 December 2022 of approximately RMB123.7 billion with a market capitalisation of approximately HK$334.4 billion as at the Latest Practicable Date. Revenue generated by Client B for the three years ended 31 December 2022 was approximately RMB68.1 million, RMB133.4 million and RMB112.6 million, respectively. We became acquainted with Client B through personal business connection of one of our executive Directors.

Note 3: Client F is a subsidiary of a multinational Internet technology private company based in the PRC. Revenue generated by Client F for the three years ended 31 December 2022 was approximately RMB26.9 million, RMB56.9 million and RMB25.5 million, respectively. We became acquainted with Client F through referrals by another client.

Note 4: Client G is a consolidated variable interest entity of one of the leading e-commerce companies based in the PRC and listed on the Stock Exchange, recording total net revenue for the year ended 31 December 2022 of approximately RMB1,046.2 billion with a market capitalisation of approximately HK$351.3 billion as at the Latest Practicable Date. Revenue generated by Client G for the three years ended 31 December 2022 was approximately RMB16.2 million, RMB26.3 million and RMB42.7 million, respectively. We became acquainted with Client G through tender bid.

Note 5: Client H is a cloud computing company in the PRC and a variable interest entity of one of the largest retail e-commerce business operators in the world, based in the PRC and listed on the Stock Exchange, recording revenue for the year ended 31 December 2022 of approximately RMB853.1 billion. Revenue generated by Client H for the three years ended 31 December 2022 was approximately RMB12.9 million, RMB77.6 million and RMB59.3 million, respectively. We became acquainted with Client H through our active business solicitation.

Note 6: Client I is a subsidiary of a multinational technology corporation based in the PRC. We became acquainted with Client I through tender bid.

Note 7: Client J is a controlled structured entity of one of the leading providers of Internet services and mobile value-added services in the PRC and listed on the Stock Exchange, recording revenue for the year ended 31 December 2022 of approximately RMB554.6 billion with a market capitalisation of approximately HK$3.1 trillion as at the Latest Practicable Date. Revenue generated by Client J for the two years ended 31 December 2022 was approximately RMB3.0 million and RMB99.9 million, respectively. We became acquainted with Client J through tender bid.

Note 8: Client K is one of the leading cloud computing service providers in the PRC, which is based in the PRC with a registered share capital of RMB1.1 billion. We became acquainted with Client K through referrals by mutual friend. Client K was one of our Group's core clients during the Track Record Period. In 2023, Client K experienced a remarkable business growth, where our Group was able to meet their demand for increased bandwidth usage.

Note 9: Our Group was legally advised that there is a risk that, the disclosure of the identities and relevant information of our five largest clients may entail an actionable breach of confidence, depending on the relevant factual circumstances. Therefore, our five largest clients' identities and relevant information during the Track Record Period were not disclosed.

During the Track Record Period, the revenue generated from Client A dropped significantly, primarily attributable to Client A's business adjustment and cost optimisation after its listing, which resulted in a mismatch between Client A's expectation of lower price of data centre resources from us and our strategy to focus on our major clients who could generate sizeable and profitable businesses to us. This prompted us to reduce the size of our cooperation with Client A on our own initiative and shift our resources to other major and more profitable clients. Our Directors are of the view that such demand from Client A was a result of its own consideration of business plan in light of its recent listing status. Our Directors believe that this example is a one-off incident that was closely related to Client A's special business consideration, hence, the circumstance with Client A cannot be generally applicable to all the other major clients.

To the best knowledge and belief of our Directors after making all reasonable enquiries, all of our five largest clients and their respective beneficial owners during the Track Record Period are Independent Third Parties. As at the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest clients.

Colocation and infrastructure management service agreement

Term

The colocation and infrastructure management service agreements with our top-notch cloud computing service provider and internet company clients usually have service periods ranging from nine months to three years. For some agreements with a shorter term, there is an option of automatic contract renewal for another one year upon confirmation of both parties or they will be terminated otherwise. If the parties elect to renew the term, there is generally no restriction on how many times the agreements can be renewed.

Pricing

In most of our colocation and infrastructure management agreements, our clients are generally charged per the specific number of racks, cabinets, and IP addresses they procure or use and the particular models of their bandwidth usage, expressed as a price per gigabyte at the end of each month. We levy a certain percentage of the monthly maximum bandwidth capacity, or a minimum quantity used as a minimum charge to our clients.

Subject to our clients' choice, we generally charge our clients on two pricing models for the bandwidth usage in our colocation and infrastructure management agreements. The first pricing model is based on the actual bandwidth usage. Where the actual bandwidth usage does not meet the minimum threshold, the client will be charged at the minimum threshold. Where the actual bandwidth usage exceeds the minimum threshold, we will adopt the 95^{th} percentile bandwidth metering for measuring our clients' bandwidth usage. We first use a simple network management protocol (SNMP) to capture the data every five minutes at the beginning of each month in order to

collect bandwidth utilisation samples over a period of time. Then, we sort the values from highest to lowest and remove the top 5% of values. The remaining highest value is the 95th percentile value on which the 95th Percentile Bandwidth Charging Model is based.

The second pricing model, the Packet Port Charging Model, is based on the number of packet ports used and the fixed price per packet port.

The 95th Percentile Bandwidth Charging Model is more popular with our clients although its per-gigabyte cost is higher than the other charging model because it allows us to charge only as they use, leaving them zero idle bandwidth capacity which will increase operating cost.

In addition to bandwidth usage, our Group charges our clients by the number of server racks, cabinets and IP addresses procured and used by them under the colocation and infrastructure management service agreement. There is a generally positive but not necessary correlation between cabinet usages and bandwidth usages. Generally when clients procure our IDC Solution Services, they usually procure in a package bundling bandwidth capacity, cabinets and IP addresses for their business needs. Thus, the more bandwidth is to be used, more cabinets and IP addresses would tend to be needed. However, clients may occasionally procure each of the bandwidth capacity, cabinets and IP addresses from us separately in light of their business needs. Our Group will charge the relevant fees according to the procurement cost from our suppliers.

Our guaranteed performance

We usually guarantee our client 99.99% uptime for power and 99.90% uptime for Internet connectivity.

Termination

Generally, either party is allowed to early terminate the agreement subject to a notice period of 30 days. Otherwise, the non-complying party is obliged to pay a specific amount as penalties. If the early terminating party is our client, (i) they shall notify us 30 days in advance, or else a penalty may be imposed; (ii) they have to pay a reasonable fee in accordance with our service already provided; and (iii) on certain occasions, a client may also have to pay a certain percentage of the fee of the unrendered services, given early termination is deemed as a breach of such agreement by such client.

Clients may also terminate the colocation and infrastructure management agreement if we fail to perform the contracted services or are in material breach of the provisions of the agreements provided we fail to rectify any service failure or breach within a stipulated period of time.

We had a very low non-renewal rate of the colocation and infrastructure management agreements, as evidenced by our average annual churn rate of 2.9%, 2.7% and 3.9% for the years ended 31 December 2020, 2021 and 2022, respectively (the average annual churn rate is not applicable to stub period).

Billing and payment

We generally bill our clients in arrears. After the bandwidth usage data sample has been collected, if the discrepancy between the sample collected by us and our clients is less than a certain percentage, we will charge our clients according to their metering results. If the discrepancy is above a certain designated percentage, both parties shall share the details of the bandwidth usage data collected, start the reconciliation process, and arrive at a mutually agreed result, confirmed by both parties. During the Track Record Period and up to the Latest Practicable Date, there have been no claims from our clients for discrepancies in billing to our clients.

During the Track Record Period and up to the Latest Practicable Date, to the best of our Directors' knowledge and belief, we have not experienced any material breach of the colocation and infrastructure management service agreement by our clients.

Edge computing service agreement

Terms

The edge computing service agreements usually have a service period of one year.

Contract renewal

Subject to the renewal clauses on a case-by-case basis, upon the expiry of the edge computing service agreements, some agreements will be renewed automatically if both parties have no objections or renewed upon written confirmations by both parties, whereas further negotiations with our clients are required for contract renewal in other cases.

Pricing

Our clients are generally charged per the bandwidth usage, expressed as a price per gigabyte at the end of each month. We will adopt the 95th percentile bandwidth metering for measuring our clients' bandwidth usage. For details of the 95th percentile bandwidth metering, please refer to the paragraph headed "Business — Our Clients — Colocation and infrastructure management service agreement" of this section.

Termination

Generally, either party is allowed to early terminate the agreement subject to a notice period of one month. Both parties have to settle the amount payable per the actual amount of bandwidth usage.

Bill and payment

We generally bill our clients in arrears. After the bandwidth usage data sample has been collected, if the discrepancy between the sample collected by us and our clients is less than a certain percentage, we will charge our clients according to their metering results. If the discrepancy

is above a certain designated percentage, both parties shall share the details of the bandwidth usage data collected, start the reconciliation process, and arrive at a mutually agreed result, confirmed by both parties. During the Track Record Period and up to the Latest Practicable Date, there have been no claims from our clients for discrepancies in billing to our clients.

During the Track Record Period and up to the Latest Practicable Date, to the best of our Directors' knowledge and belief, we have not experienced any material breach of the edge computing service agreement by our clients.

OUR SUPPLIERS

Our major suppliers are state-owned telecommunication carriers and small-and-medium data centre owners and operators in the PRC. For each year/period during the Track Record Period, charges from our largest supplier accounted for 86.3%, 66.6%, 55.2% and 36.6%, respectively, of our cost of sales during those periods. Our largest supplier for the Track Record Period was Supplier A, which supplied us data centre resources including mainly bandwidth and cabinets. For each year/period during the Track Record Period, charges from our five largest suppliers accounted for 94.3%, 89.2%, 92.2% and 88.6%, respectively, of our cost of sales during the same periods. During the Track Record Period, we generally settled our payments to our suppliers by bank transfer. During the Track Record Period, there were 114 suppliers of our Group.

The following table shows the details of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2020:

Rank	Name of supplier[Note 13]	Background and principal business	Products or services purchased by our Group	The year in which the supplier first start to have business relationship with our Group	Approximate amount of cost recognised	% of total cost of sales	Credit terms
					(RMB'000)		
1	Supplier A[Note 1]	State-owned telecommunication operation	IDC resources	2016	191,703	86.3%	Within 90 Business Days after issue of invoice
2	Supplier D[Note 2]	Provision of IDC solution services	IDC resources	2018	5,372	2.4%	Within 60 days after issue of invoice
3	Supplier F[Note 3]	Provision of IDC solution services	IDC resources	2019	5,080	2.3%	Within two calendar months after issue of invoice
4	Supplier G[Note 4]	Provision of IoT technology, computer system and intelligent control system integration services	ICT services	2020	3,774	1.7%	Within six calendar months after issue of invoice
5	Supplier H[Note 5]	Provision of e-commerce, Internet and mobile Internet application services	ICT services	2020	3,472	1.6%	Within 30 Business Days after issue of invoice
Total					209,401	94.3%	

For the year ended 31 December 2021:

Rank	Name of supplier[Note 13]	Background and principal business	Products or services purchased by our Group	The year in which the supplier first start to have business relationship with our Group	Approximate amount of cost recognised (RMB'000)	% of total cost of sales	Credit terms
1	Supplier A[Note 1]	State-owned telecommunication operation	IDC resources	2016	271,582	66.6%	Within 90 Business Days after issue of invoice
2	Supplier I[Note 6]	Provision of basic solution services for internet application and one-stop cloud acceleration services	IDC resources	2021	44,066	10.8%	Within 10 days after the end of the settlement cycle
3	Supplier J[Note 7]	Provision of construction solution services for intelligent system	IDC resources	2021	18,679	4.6%	Upon the issue of invoice
4	Supplier K[Note 8]	Internet-related business operation	IDC resources	2021	17,655	4.3%	Within 10 days after the end of settlement cycle
5	Supplier L[Note 9]	State-owned telecommunication operation	IDC resources and ICT services	2016	11,762	2.9%	Within 15 days after the end of settlement cycle
Total					363,744	89.2%	

For the year ended 31 December 2022:

Rank	Name of supplier[Note 13]	Background and principal business	Products or services purchased by our Group	The year in which the supplier first start to have business relationship with our Group	Approximate amount of cost recognised (RMB'000)	% of total cost of sales	Credit terms
1	Supplier A[Note 1]	State-owned telecommunication operation	IDC resources	2016	264,877	55.2%	Within 90 Business Days after issue of invoice
2	Supplier M[Note 10]	Internet-related business operation	IDC resources	2022	81,525	17.0%	Within 3 days after confirmation of fees
3	Supplier K[Note 8]	Internet-related business operation	IDC resources	2021	34,909	7.3%	Within 10 days after the end of settlement cycle
4	Supplier N[Note 11]	Provision of IDC services	IDC resources	2021	34,295	7.1%	Within three calendar months after using resources
5	Supplier L[Note 9]	State-owned telecommunication operation	IDC resources	2016	26,590	5.5%	Within 90 days after issue of invoice
Total					442,196	92.2%	

For the six months ended 30 June 2023:

Rank	Name of supplier[Note 13]	Background and principal business	Products or services purchased by our Group	The year in which the supplier first start to have business relationship with our Group	Approximate amount of cost recognised (RMB'000)	% of total cost of sales	Credit terms
1	Supplier A[Note 1]	State-owned telecommunication operation	IDC resources, edge computing services and ICT services	2016	92,939	36.6%	Within 90 Business Days after issue of invoice
2	Supplier J[Note 7]	Provision of construction solution services for intelligent system	IDC resources	2021	86,241	33.9%	Within 120 Business Days after issue of invoice
3	Supplier M[Note 10]	Provision of IDC services	IDC resources	2022	20,051	7.9%	Within 3 days after confirmation of fees
4	Supplier N[Note 11]	Provision of IDC solution services	IDC resources	2021	16,198	6.4%	Within three calendar months after issue of invoice
5	Supplier O[Note 13]	Provision of IDC solution services and ICT services	IDC resources	2022	9,762	3.8%	Within one calendar month after the end of the settlement cycle
Total					225,191	88.6%	

Note 1: Supplier A is a state-owned telecommunication operator and a leading ICT services provider in the PRC which provides communications and information services in all 31 provinces, autonomous regions and directly-administered municipalities throughout the PRC and Hong Kong. Supplier A is listed on the Stock Exchange and had a market capitalisation of approximately HK$1.4 trillion as at the Latest Practicable Date. The cost of sales from Supplier A for the three years ended 31 December 2022 was approximately RMB191.7 million, RMB271.6 million and RMB264.9 million, respectively.

Note 2: Supplier D was incorporated in 2015 and principally engages in the provision of IDC solution services which is situated in Hunan Province with registered capital of RMB10 million.

Note 3: Supplier F was incorporated in 2014 and principally engages in the provision of IDC solution services which is situated in Hunan Province with registered capital of RMB10 million.

Note 4: Supplier G was incorporated in 2020 and principally engages in the provision of IoT technology, computer systems and intelligent control system integration services which is situated in Shandong Province with registered capital of RMB20 million. The cost of sales from Supplier G for the two years ended 31 December 2021 was approximately RMB3.8 million and RMB2.6 million.

Note 5: Supplier H was incorporated in 2010 and principally engages in the provision of e-commerce, Internet and mobile Internet application services which is situated in Jiangsu Province with registered capital of RMB50 million. The cost of sales from Supplier H for the two years ended 31 December 2021 was approximately RMB3.5 million and RMB 3.0 million, respectively.

Note 6: Supplier I was incorporated in 2016 and principally engages in the provision of basic solution services for internet application and one-stop cloud acceleration services which is situated in Beijing with registered capital of RMB30 million.

Note 7: Supplier J was incorporated in 2001 and principally engages in the provision of construction solution services for intelligent system which is situated in Jiangsu Province with registered capital of RMB41.0 million. It is listed on the National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統).

Note 8: Supplier K was incorporated in 2020 and principally engages in the provision of CDN services which is situated in Beijing with registered capital of RMB10 million.

Note 9: Supplier L is a state-owned telecommunication operator and a leading ICT services provider in the PRC which provides communications and information services in the PRC and Hong Kong. Supplier L is listed on the Stock Exchange and had a market capitalisation of approximately HK$155.1 billion as at the Latest Practicable Date.

Note 10: Supplier M was incorporated in 2018 and principally engaged in the provision of CDN services which is situated in Fujian Province with registered capital of RMB5 million.

Note 11: Supplier N was incorporated in 2016 and principally engaged in the provision of IDC solution services which is situated in Shandong Province with registered capital of RMB10 million.

Note 12: Supplier O was incorporated in 2021 and principally engaged in the provision of IDC solution services and ICT services which is situated in Shandong Province with registered capital of RMB10 million.

Note 13: Our Group was legally advised that there is a risk that the disclosure of the identities and relevant information of our five largest suppliers may entail an actionable breach of confidence, depending on the relevant factual circumstances. Therefore, our five largest suppliers' identities and relevant information during the Track Record Period were not disclosed.

During the Track Record Period, our Group also sourced IDC resources from other independent regional IDC solution service providers in the event of (i) such providers were able to provide similar IDC resources to us at a lower cost in the particular regions; and (ii) a sudden surge for our IDC Solution Services from our clients, where we needed additional IDC resources for better resource management.

To the best knowledge and belief of our Directors after making all reasonable enquiries, all of our five largest suppliers are Independent Third Parties. As at the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of the Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

For details of sensitivity and breakeven analysis in relation to changes in costs, please refer to the paragraph headed "Financial Information — Major Factor Affecting Our Results of Operations — Company specific factors — Pricing structure" in this document.

Data Centre Business Agreement

Term

The data centre business agreements with our major suppliers generally have a service period of one year, upon the expiry of which the agreement will be automatically renewed, except a party gives an advance notice of termination in not less than 30 days before the expiry of the agreement.

Pricing

Similar to the colocation and infrastructure management service agreement, reciprocally, we are charged by our clients on the 95th Percentile Bandwidth Charging Model or the Packet Port Charging Model, subject to mutual negotiation or our selection. For details of the two pricing models, please refer to the paragraph headed "Business — Our Clients — Colocation and infrastructure management service agreement" of this section.

In order to improve bandwidth utilisation efficiency for the purpose of reducing our Group's overall cost, we installed a sophisticated traffic-scheduling equipment in the fourth quarter of 2021, which has improved our packet port bandwidth utilisation rate. As being charged by our suppliers via Packet Port Pricing Model runs the risk of idling bandwidth capacity which will increase our operating cost, the traffic scheduling equipment allows us to maximise the bandwidth usage by our clients per packet port which can effectively drive down our operating cost.

In addition to bandwidth usage, our Group is charged by the number of server racks, cabinets and IP addresses procured and used under the data centre business agreement. The amount of cost in relation to the procurement of server racks and cabinets was relatively insignificant, usually constituting less than 10% of the total cost of sales during the Track Record Period. The amount of cost in relation to the procurement of IP address was negligible compared with the total cost of sales. There is a positive, but not necessary, correlation among the bandwidth usage, cabinet and server rack procurement and IP address procurement. Where the bandwidth usage is expected to be enormous, more servers are expected to be used on the server racks and cabinets.

Our Group is subject to minimum purchase commitment by our different branches of Supplier A or different suppliers, on a case-by-case basis. Minimum purchase commitment of generally 30–40% of the designated bandwidth traffic under a particular data centre business agreement is usually applicable only to the 95th Percentile Bandwidth Charging Model charging against us.

The guaranteed performance

Our suppliers guarantee us up to 99.99% uptime for power and 99.90% uptime for Internet connectivity.

Termination

Prior to the expiry date of the data centre business agreement, either party may terminate the data centre business agreement if the other party is wound-up or bankrupt, or materially breaches the agreement or due to force majeure.

Billing and payment

We are generally billed on a monthly basis in arrears. If the discrepancy in the expected bill amount and the actual amount between the supplier and us is less than a certain percentage, we will pay our supplier according to their metering results. If the discrepancy is over a certain designated percentage, both parties shall share the details of the bandwidth usage data collected, start the

reconciliation process, and arrive at a mutually agreed result. During the Track Record Period and up to the Latest Practicable Date, there were no material discrepancies in billing from our suppliers.

During the Track Record Period and up to the Latest Practicable Date, to the best of our Directors' knowledge and belief, there was no material breach of the data centre business agreements.

Relationship with our Largest Supplier — Supplier A

Our relationship with Supplier A can be traced back to 2016, where the Internet data centre business was at a transformation stage and more advanced, integrated and energy-saving cloud services were highly demanded in the market. Although Supplier A had the leading and extensive data centre infrastructure across the PRC, data centre operation was not their main profit centre. Their IDC solution service operation and data centre resource distribution level might not be able to catch up with the vast volume of cloud service resources, leaving their bandwidth idling and unprofitable. Our emergence satisfied their need for flexible and extensive IDC solution service providers.

In 2016, our Directors noticed such opportunity and formed the platform as a bridge between bandwidth suppliers and bandwidth users. At that time, our Group's then and current client at the Track Record Period, a National High and New Tech Enterprise recognised by the Shenzhen Municipal Government intended to purchase data centre resources from Supplier A in Qingdao. It was then the first IDC service provided by the Qingdao Branch Office, which lacked the relevant experience in the management and maintenance of data centres. Such client introduced our Group to Qingdao Branch Office. Our cooperation with Supplier A began in Qingdao, where we sourced data centre resources from them, mainly including server rack space, power bandwidth capacity, assisted them in completing relevant regulatory filing procedures and took charge of the maintenance of the data centres of the Qingdao Branch Office. It was when Supplier A strategically embarked on seizing the first-mover advantage in the relatively unexplored Internet data centre business market in the area. Our contribution to the cooperation included our experience in cloud infrastructure management services, our bandwidth selling and scheduling capacity and our liaising with downstream Internet companies. Our starting point in Qingdao laid the foundation of our lasting relationship with Supplier A. Since then, our co-development and joint exploration of data centre operation with Supplier A have extended to Jiangsu Province, Guangdong Province, Zhejiang Province, Guangxi Province, Hebei Province, Shanxi Province, Sichuan Province, Guizhou Province, Qinghai Province, Xinjiang Uygur Autonomous Region and the Inner Mongolia. According to the Frost and Sullivan Report, and our Directors concur that, out of the approximately 20–30 IDC solution service providers engaged by Supplier A, we have become one of the most important ecosystem partners of Supplier A in terms of transaction amount in the area of data centre operation in Shandong Province and Inner Mongolia. The Group has a solid customer base and good reputation in the provision of IDC Solutions Services in Shandong Province and Inner Mongolia, and serves as Supplier A's ecosystem partner in distribution of bandwidth capacity to the Internet companies. It is estimated that the Group accounts for more than 10% of service fees paid by the ecosystem partners to Supplier A in Shandong Province and Inner Mongolia.

According to the Frost and Sullivan Report, as China's upstream data centre resources and facilities are dominated by three state-owned telecommunication carriers and given Supplier A's leading position in the infrastructure development of 5G network in the PRC, our Directors consider that it is in the industry norm and also in the best interests of our Group to rely on one or more state-owned telecommunication carriers in the PRC for data centre resource procurement. We consider our relationship with Supplier A and other state-owned telecommunication carriers to be stable and unlikely to materially and adversely change or terminate. As confirmed by our Directors, we have not encountered any difficulties in renewing the data centre business agreement with Supplier A since 2016. Given the mutual reliance between our Group and Supplier A, our Directors are of the view that our good relationship with Supplier A will sustain in the future.

Our Directors consider that we are not overly reliant on Supplier A for the reasons below.

Ongoing plans to diversify sources and reduce concentration risk

Despite high supplier concentration in our operation, we believe that it is highly unlikely that Supplier A will terminate our cooperation and relationship. Attempts have been made to reduce our reliance on Supplier A. During the Track Record Period, our Group also engaged other state-owned telecommunications carriers for our IDC solution service operation. As at the Latest Practicable Date, (i) we have been in negotiation with other state-owned telecommunication carriers for the provision of management and operation services for their cloud infrastructure, and came to the stage of assessing technical feasibility; (ii) our reliance on Supplier A was decreasing during the Track Record Period as our cost of sales derived from Supplier A dropped from 86.3% for the year ended 31 December 2020 to 55.2% for the year ended 31 December 2022 and further decreased to 36.6% for the six months ended 30 June 2023 for we started to engage other data centres as our supplementary supplier; and (iii) it was our Group's commercial decision not to enter into any long term contract with Supplier A to maintain flexibility with other suppliers and was also in line with Supplier A's usual practice. Although we believe that having a solid relationship with Supplier A is beneficial and crucial to our business sustainability, we will steadily increase our procurement share in relation to other carriers. We expect our procurement cost to Supplier A to continue to decrease proportionally.

For the three years ended 31 December 2022 and the six months ended 30 June 2023, our purchase amount from Supplier L, being one of the three state-owned telecommunication carriers in the PRC with whom we have had over six years of business relationship, amounted to RMB642,000, RMB11.8 million, RMB26.6 million and RMB7.4 million, respectively. For the same periods, our purchase from Supplier P, being another state-owned telecommunication carriers in the PRC with whom we have had over six years of business relationship, amounted to RMB173,000, RMB2.0 million, RMB8.8 million and RMB2.3 million, respectively. Compared with Supplier A, the low transaction amounts of our Group with Supplier L and Supplier P during the Track Record Period were primarily due to (i) the established foundation of cooperation and trust between our Group and Supplier A since 2016 which has led to consistent business transactions with Supplier A during the Track Record Period; and (ii) our Group's historical approach to develop our business through closely cooperating with Supplier A where our strategy is to replicate

such successful experience in our future collaborations with Supplier L and Supplier P as evidenced by our overall increasing trend of transaction amounts with Supplier L and Supplier P during the Track Record Period. Despite the reasons mentioned above explaining our relatively low transaction amounts with Supplier L and Supplier P during the Track Record Period, in order to reduce concentration risk, we will continue to strive for diversification of our data centre resource procurement which is in the best interests of our Group in the long run.

Readily available alternatives

According to the Frost and Sullivan Report, the Internet data centre business market is a highly competitive and fragmented market. There are other readily available alternatives to Supplier A in the market. In the long run, it is also to our Group's benefit to provide dual-line or multiple-line network instead of single-line network in order to enhance our core competitiveness and provide a stable connection service to our clients. Based on our experience in the IDC solution service market in the PRC, we believe that there are readily available alternative data centre resource suppliers that could be substitutes of our existing data centre resource supplier if necessary. We do not consider our change in business operations with Supplier A will materially adversely affect our operation.

Supplier A and our Group are mutually complementary to each other in the area of data centre operation

Our Group's client base is complementary to fulfilling Supplier A's marketing and sales needs. Being top-notch cloud computing service providers and internet companies in the PRC, our clients tend to be qualified by Supplier A's standard, including whether the requisite licences of the relevant operations have been obtained and whether the server or other equipment quality fulfils the required technology standard in order not to compromise the safety of the Internet, and able to purchase our services in bulk and timely on payment. We benefit from Supplier A's standard requirements imposed on our potential clients as our operations can thus be legal and safe. Although our PRC Legal Adviser is of the view that there is no significant regulatory restriction faced by Supplier A to develop its own IDC solution service operation, according to the Frost and Sullivan Report and our Directors, our Group gains the edge over Supplier A by providing a whole array of infrastructure management services to clients which enhance network infrastructure optimisation, flexibility, scalability and interconnection opportunities. Such advantages possessed by our Group would in turn become entry barriers faced by Supplier A if they wish to directly liaise and deal with our clients. In addition, their fast-growing needs for colocation and infrastructure management services mean we have to, in turn expand our demand for and occupation of Supplier A's data centres, thereby enhancing their stickiness increasingly to us. Our Directors believe that, as a result, Supplier A and our Group are mutually reliant on and complementary to each other's operation.

For details of the risk related to our reliance on Supplier A, please refer to the paragraph headed "Risk Factors — Risks Relating to Our Business and Industry — Our ability to provide IDC Solution Services depends on the major telecommunications carriers in China providing sufficient network services to our clients in the data centre facilities that we operate on commercially acceptable terms" in this document.

Supplier A and our Group are cooperative with and distinguished from each other in the area of edge computing operation

According to the Frost and Sullivan Report, edge computing services providers that rely on the infrastructure of telecommunication service providers may not necessarily compete directly with telecommunication service providers in edge computing. Instead, they often collaborate and form partnerships to offer combined solutions. Telecommunication service providers, such as Supplier A, typically focus on providing network connectivity and infrastructure, including data centres, fiber-optic cables and other networking equipment, while our Group, as edge computing service providers, specialises in offering computing and data processing capabilities at the edge of the network. Supplier A usually sees the Edge Computing Service offered by us as an opportunity to enhance their service offerings and provide value-added services to their customers, allowing them to expand their service portfolio and cater to the growing demand for edge computing applications.

In addition, geographically, our Group has deployed and planned to deploy our infrastructure in the prefecture-level cities or administrative districts and counties under our Lower-tier Regions Network Strategy, whereas Supplier A's edge computing service market mainly lies in more established and developed economic areas. Our edge computing infrastructure, primarily consisting of servers and specially-configured edge servers and storage servers owned, operated and deployed by us, is installed into the supplier-owned data centre and facilities. As such, although our Group relies on Supplier A's IDC resources to provide its Edge Computing Services, our established CDN network can be operated differently from Supplier A's business geographical coverage, or shared with Supplier A by installing our infrastructure in Supplier A's data, which is conducive to our further cooperation. Our Directors confirm that our cooperation with Supplier A in the area of edge computing services is unlikely to restrict our Group's expansion into Edge Computing Services.

Even though the revenue of our Edge Computing Services mainly comes from our CDN services, our Edge Computing Services will become more diversified in our future plan. Our other edge computing service offerings, include but are not limited to edge security services, Internet of Things, and live streaming services (the "**Other Edge Computing Services**"), which are expected to generate revenue by the end of 2023. The Other Edge Computing Services may further differentiate the content of our edge computing services from the ones provided by Supplier A. Our Directors are of the view that our Group and Supplier A's cooperation will intensify in the future and support each other's development of our respective portfolios of edge computing services.

Overlapping of clients and suppliers

For the years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023, Client B, Supplier H, Supplier G, Supplier A, Client J, Client H and Client I during the Track Record Period (collectively, the "**Overlapping Clients and Suppliers**") were both clients and suppliers of our Group. The following table shows the details of our Overlapping Clients and Suppliers during the Track Record Period:

Overlapping clients and suppliers	Services provided by our Group	Revenue derived for the years ended 31 December			Revenue for the six months ended 30 June	Services procured by our Group	Cost of sales for the years ended 31 December			Cost of sales for the six months ended 30 June	Gross profit for the years ended 31 December			Gross profit for the six months ended 30 June	Reasons for the transactions
		2020	2021	2022	2023		2020	2021	2022	2023	2020	2021	2022	2023	
		(RMB'000/% of total revenue)	(RMB'000/% of total revenue)	(RMB'000/% of total revenue)	(RMB'000/% of total revenue)		(RMB'000/% of total cost of sales)	(RMB'000/% of total cost of sales)	(RMB'000/% of total cost of sales)	(RMB'000/% of total cost of sales)	(RMB'000/ gross profit margin)	(RMB'000/ gross profit margin)	(RMB'000/ gross profit margin)	(RMB'000/ gross profit margin)	
Client B	IDC Solution Services, ICT Services and Other Services, and Edge Computing Services	68,079/24.7%	133,409/28.7%	112,615/20.5%	50,760/16.8%	ICT services	1,194/0.5%	1,270/0.3%	—	—/—	9,224/13.6%	13,287/10.0%	14,436/12.8%	8,117/17.6%	*Note 1*
Supplier H	IDC Solution Services, ICT Services and Other Services	12,014/4.4%	11,651/2.5%	9,283/1.7%	—/—	ICT services	3,472/1.6%	3,019/0.7%	—	—/—	7,872/65.5%	3,379/29.0%	1,971/21.2%	0/0%	*Note 2*
Supplier G	ICT Services and Other Services	2,830/1.0%	1,150/0.2%	—	—/—	ICT services	3,774/1.7%	2,604/0.6%	—	—/—	1,245/44.0%	1,150/100%	—	0/0%	*Note 3*
Supplier A	ICT Services and Other Services	2,596/0.9%	10,653/2.3%	2,716/0.5%	659/0.2%	IDC resources	191,703/86.3%	271,582/66.6%	264,877/55.2%	92,939/36.6%	364/14.0%	2,842/26.7%	338/12.5%	81/12.3%	*Note 4*
Client J	IDC Solution Services and Edge Computing Services	—	2,966/0.6%	99,881/18.2%	62,863/20.8%	ICT services	—	195/0.0%	—	—/—	—	279/9.4%	11,573/11.6%	16,839/26.8%	*Note 5*
Client H	IDC Solution Services	12,925/4.7%	77,640/16.7%	59,306/10.8%	17,285/5.7%	IDC resources	—/—	—/—	—/—	5,355/2.1%	1,042/8.1%	7,536/9.7%	11,333/19.1%	4,220/24.4%	*Note 6*
Client I	IDC Solution Services	8,452/3.1%	43,369/9.3%	71,243/13.0%	24,167/8.0%	ICT services	—/—	1,771/0.4%	—/—	—/—	1,942/23.0%	5,043/11.6%	7,658/10.8%	4,023/17.0%	*Note 7*

Notes:

1. We occasionally procured from Client B certain Internet hardware, software and services for development of our ICT Services and Other Services.

2. While we procured from Supplier H ICT services for certain projects/products during the Track Record Period, we also offered our ICT Services and Other Services to Supplier H for other projects/products from time to time.

3. While we procured from Supplier B ICT services for certain projects/products for the two years ended 31 December 2021, we also offered our ICT Services and Other Services to Supper G for other projects/products for the same period of time.

4. While Supplier A is our largest supplier of IDC resources during the Track Record Period, we from time to time offered our various ICT Services and Other Services to Supplier A to suit their different needs.

5. It was an one-off transaction in respect of procurement of certain ICT services from Client J.

6. We procured certain IDC resources from Client H for the six months ended 30 June 2023 at a price lower than those from state-owned telecommunication carriers.

7. We occasionally procured from Client I certain Internet hardware, software and services for development of our ICT Services and Other Services.

Transactions with the Overlapping Clients and Suppliers similar to those mentioned above are expected to be continuing after the [REDACTED]. Our trade payables to the Overlapping Clients and Suppliers and trade receivables from the Overlapping Clients and Suppliers were settled separately. Those sales and purchases were neither inter-connected nor inter-conditional with each other. According to the Frost and Sullivan Report, the overlapping of sales and procurements of ICT Services and Other Services is not uncommon in the IDC and Internet-related industry, since suppliers and clients may possess vastly difference ICT and skill sets which can be complementary to each other. To the best knowledge and belief of our Directors after making all reasonable enquiries, (i) all of the transactions involving Overlapping Clients and Suppliers were conducted in the ordinary course of business under normal commercial terms and on an arm's length basis; (ii) the terms of transactions with the Overlapping Clients and Suppliers were separately negotiated with us and are comparable to the terms of transactions with our other clients and suppliers; and (iii) the prices of the transactions with the Overlapping Clients and Suppliers were no less favourable than our clients and suppliers who are not overlapping clients and suppliers.

Save as disclosed above, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued capital, has any interest in the Overlapping Clients and Suppliers during the Track Record Period and up to the Latest Practicable Date.

SALES AND MARKETING

We market our services and solutions directly through different strategies deployed by our sales and marketing team. In order to improve our service quality and anticipate our clients' needs, our sales and marketing staff sometimes visit our clients to gather information of their needs. Therefore, we can react promptly to our clients' situations.

In addition, we have a marketing and sales team under the leadership of Mr. Jiang, which is responsible for planning and developing our overall market strategies, conducting market research and coordinating all of our marketing activities.

We primarily attract new clients by relying on our Directors' personal connection and word-of-mouth recommendation of our existing clients. For example, our Group became acquainted with Client B through Mr. Sun's personal connections; and our Group became acquainted with Client F through clients' referrals. We have also enlarged our client base by participating in tender bidding. For example, we acquired businesses with Client G, Client H and Client I through tender bidding. For the three years ended 31 December 2022 and the six months ended 30 June 2023, the numbers of successful tender bidding were six, five, seven and three, representing the success rates of 54.6%, 55.6%, 87.5% and 75.0%, respectively. Our sales and marketing team also actively solicited new businesses from Client A and Client H by conducting visits to the offices of potential clients. For details of how our Group became acquainted with our five largest clients during the Track Record, please refer to the paragraph headed "Business — Our Clients" in this document.

Before entering into contract with our potential client, we usually will set an internal target to gain a minimum gross profit margin of 10% from our potential client mainly based on the bandwidth cost charged by our supplier (the "**Minimum Rate of Return**"). The Minimum Rate of Return could be flexible, depending on the situations. We may occasionally lower the Minimum Rate of Return for desired clients or in the market we intend to explore.

According to the Frost and Sullivan Report, IDC solution service providers typically engage downstream enterprise clients through (i) direct sales outreach and marketing activities, which is an approach adopted by other market players including Capitalonline Data Service Co., Ltd and GDS Holding Ltd; (ii) referrals by existing and satisfied downstream customers; and (iii) submission of tender. Thus our sales and marketing practices are essentially consistent with industry norms. During the Track Record Period and as at the Latest Practicable Date, we did not acquire businesses with our major clients through referrals by our suppliers.

RESEARCH AND DEVELOPMENT

Our business and results of operations depend on the dynamic nature of our business model in response to clients' evolving need. As at the Latest Practicable Date, we had established a three-tiered research structure, where (i) the first tier is our technology committee consisting of our senior management, principally responsible for formulating research direction; (ii) the second tier is our pre-research team, principally responsible for developing forward-looking technologies and collaboration with our existing research; and (iii) the third tier is our Edge Computing Services research team, principally responsible for the commercialisation, and application of our Edge Computing Services. In addition, we further categorise our research into three categories, namely, independent innovation research, major clients' demand-based research and existing product renovation research. Independent innovation research refers to the development of cutting-edge and core technologies for our service offering in light of the direction formulated by the technology committee, market research, and results of our pre-research team. Major clients' demand-based research refers to our research per clients' request. By existing product renovation research, we take into consideration market status, our business development stage, market research and feedback from our clients. We believe having a clearly defined division of labour and product categorisation would effectively enhance our service and product quality.

Our Procedure

We believe our strong research and development abilities and ability to keep up with the rapid development and advances in IDC Solution Services related technologies through developing innovative solutions are crucial to our continued success. For the three years ended 31 December 2022, we have incurred RMB10.6 million, RMB17.0 million and RMB23.6 million, respectively, as our research and development expenses.

As at the Latest Practicable Date, our research and development team comprised 17 experienced professionals, representing 17.9% of our total staff. Save as three team members, all are bachelor or master degree holders, mainly majoring in computer science, software engineering or computer related subjects. Apart from relevant technological academic background and working

experience, the research and development team members have to acquire knowledge through continuous training. We plan to expand our research and development team further within the next three years, and intend to hire engineers with bachelor degree or higher in computer-related subjects. For details, please refer to the paragraph headed "Future Plans and [REDACTED] — [REDACTED] — Recruitment talents for IDC Solution Service and Edge Computing Service operations" in this document.

The key steps involved in our development process consist of the following:

- per our Group's strategies and our client's needs, conducting market researches and formulating directions for our product development, and perform feasibility studies;
- formulating research guidelines and refining our research procedure;
- performing assessments on the feasibility studies;
- collecting product information of our competitors;
- organising tasks for existing product improvement;
- confirming the product development based on the feasibility studies;
- understanding client's needs as to the specification, structure and quality of our products and services; and
- providing technological analysis and cost reporting to our sales department.

Our Platform

As at the Latest Practicable Date, we have developed 29 systems, software and platforms, among which, the essential ones are stated in the following:

- *Lingjing Cloud* CDN service traffic statistical system;
- *Lingjing Cloud* CDN cache refresh warm-up system;
- *Lingjing Cloud* CDN daily scheduling analysis system;
- traffic management system: managing traffic amongst networks;
- alarm device platform: alerting in case of network anomaly, giving early warning to our maintenance team in preparation for possible network disruption and resolving the problem prior to our clients' knowledge;
- IDC remote deployment system improving server connection, thereby increasing the network speed and reducing the overall time needed for service deployment;

- asset management platform: coordinating the deployment of our cross-regional data centre resources and equipment;
- flow balancing platform: allowing the maximum use of our data centre resources, thereby reducing the overall cost;
- automated guided monitoring device: automatic monitoring of physical environment inside our managed data centres; and
- network traffic monitoring platform: collecting bandwidth usage data samples to and from clients and suppliers respectively.

Outsourcing arrangement

Our Group would outsource certain research and development according to the needs of our development and project requirements. During the Track Record Period, we outsourced certain research and development in relation to (i) certain ICT projects where our Group's research team does not have capacity to develop certain specific type of technology on our own and it was not commercially efficient to hire an extra employee for the research work solely for the purpose of handling such an one-off project; and (ii) CDN technology where extra research capacity is needed in addition to our existing research capacity of our Edge Computing Services. Our Directors are of the view that it is a common practice in the industry and it is more commercially efficient to outsource to third-party research professionals for the research of certain specific technology which we do not possess.

Cooperation with third-party research institutes

As at the Latest Practicable Date, our Group has entered into (i) the Cooperation Agreement on the Construction of Artificial Intelligence and Edge Computing Joint Laboratory (人工智能與邊緣計算聯合實驗室建設合作協議書) with the College of Software of Xi'an Jiaotong University (西安交通大學軟件學院) and (ii) a cooperation framework agreement on the development and application of intelligent new energy commercial vehicle, where our Group contributed through the provision and construction of edge computing infrastructure, with a commercial vehicle manufacturer and a technology company.

The material terms of the respective cooperation agreements with the research institutes are summarised as follows:

	The Cooperation Agreement on the Construction of Artificial Intelligence and Edge Computing Joint Laboratory
Parties of the agreement	College of Software of Xi'an Jiaotong University; and our Group
Date of the agreement	27 April 2023
Term of cooperation	Two years
Parties' obligation	— establish the joint innovation laboratory; — liaise and organise to compile the joint innovation laboratory construction proposal; — raise fund for the establishment of the joint innovation laboratory; — propose or suggest research direction or project; and — liaise, organise and participate in the project application/ filing to the national and provincial governments.
Ownership of intellectual properties	— before the signing of the agreement, any intellectual property right (the "**IP Right**") owned by one party, should continue to belong to that party; — after the signing of the agreement, any IP Right developed by one party independent of the other party should belong to the developing party; — the non-developing party of the IP Right shall have the right of first refusal when the IP Right is proposed to be licensed or transferred to a third party; and — ownership of the IP Right jointly developed by the parties during the establishment of the joint innovation laboratory shall be determined by agreement per negotiation.

SEASONALITY

The IDC solution service market does not exhibit any significant seasonality. Our data centre management operation is carried out all year round. Our colocation and infrastructure management agreements with our clients also set out force majeure terms to cater for the occurrence of events that are beyond the reasonable control of either party of the contract that prevents or hinders the performance of the contract.

INSURANCE

We maintain insurance in compliance with the applicable laws and regulations and in accordance with industry practice. Our Directors consider that our current level of insurance coverage is adequate having regard to our current operations and the prevailing industry practice. We had duly maintained all material insurance policies in compliance with the relevant PRC laws and regulations during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, to the best of our Directors' knowledge and belief, we had not made any material claims under our insurance policies or experienced any material business interruptions and we had not experienced any material insurance disputes. For details, please refer to the paragraph headed "Risk Factors — Risks relating to our Business and Industry — We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise" in this document.

COMPETITION

According to the Frost and Sullivan Report, the IDC solution service market is a highly fragmented and competitive market, with an estimated number of 400 players on various scales. The top 20 industry players accounted for 34.5% of the total market share in terms of revenue in 2022. Our Group ranked the 11^{th} in the Internet data centre industry among carrier-neutral service providers in terms of revenue in 2022 with a market share of 0.6%.

We primarily compete with other domestic carrier-neutral data centre service providers, including state-owned telecommunications carriers, as well as other domestic and international carrier-neutral data centre service providers, and independent data centre service providers. We believe that we are well-positioned in terms of our operational track record and our ability to deliver high-performance data centre services and maintain consistently high service quality and continue capacity expansion in a cross-regional network in the PRC and accommodate the thriving demand and provide infrastructure management service. Our Directors believe that our cross-regional network, deep operating knowledge and established relationship with the PRC's major state-owned telecommunication carriers sets us apart from our competitors across the major cities and provinces in the PRC.

Although state-owned telecommunications also carriers provide colocation service business, we believe that our relationship is more akin to partners than competitors. Without self-built data centres, we are agile and flexible in deploying resources effectively in response to our fast-changing clients' needs. In turn, the state-owned telecommunication carriers provide their colocation services together with our infrastructure management services. Thus, we are complementary to each other in the area of data centre operation. We believe that we have a mutually beneficial synergy with state-owned telecommunications carriers since our IDC Solution Services often help carriers attract more clients for their telecommunications services.

According to the Frost and Sullivan Report, the main entry barriers to the data centre solution service industry include: (i) the need to establish relationship with state-owned telecommunication carriers; (ii) strong technical, deep industry know-how and strong business development capability required to cater clients' various needs; (iii) heightened quality standards, adopted by Internet companies and state-owned telecommunication carriers, track record and market presence to compete and avoid takeover; and (iv) extensive client network and presence to maintain healthy long-term recurring revenues.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Directors and senior management are responsible for the formulation of and overseeing the implementation and effectiveness of our internal control and risk management systems, which have been designed to ensure our Group's ongoing compliance with the applicable laws, regulations and rules relevant to our business operations and/or corporate governance, and to prevent the recurrence of non-compliance incidents. Our internal control and risk management systems cover, among other things, finance management, sales management, remuneration management and personnel management. We have also adopted before the [REDACTED], the following measures to ensure compliance with the Listing Rules upon the [REDACTED].

We do not adopt any hedging policy. For details regarding the risks involved in our operation, please refer to the section headed "Risk Factors" in this document.

Information Security Risk Management

We have adopted a privacy policy that explains how we collect, use, share and protect personal information. We sign confidentiality agreements with all our employees, clients, and suppliers to prevent unauthorised disclosure of information.

As at the Latest Practicable Date, the volume of personal information processed by the Group is relatively small, involving only the processing of personal information of internal employees and supplier contacts. As confirmed by our Directors, the data related to the operation of our Edge Computing Services coming from our clients' servers are temporarily cached in our edge nodes for a short period of time, typically in minutes or days. Such cached data are public streaming data including short and long videos, web and game pages and large files which do not contain any user privacy data or personal information. The data cache and other functions in our edge nodes are conducted in strict compliance with requirements under the relevant rules, regulations and contracts.

Therefore, our Directors confirmed that all servers owned by the Group do not process and/or store any personal data of our Group's clients and end-users, and that our Group cannot access information of its clients and their end-users.

The Personal Information Protection Law of the PRC effected on 1 November 2021 aims to protect personal rights and interests in personal information, regulate the processing of personal information, ensuring the orderly and free flow of personal information in accordance with the law and promoting the reasonable use of personal information. Under the Personal Information Protection Law, domestic companies in the PRC shall establish internal management systems and operational procedures for personal information protection to fulfill the relevant legal responsibilities. Before collecting personal information from its employees, the Group will issue an Employee Privacy Notice (《員工隱私通知》) to the employees to inform them of the rules for processing personal information, the content of their rights and the way to exercise them. The Group has uniformly formulated and issued internal policies such as the "Personal Information Protection Compliance Management Measures V1.0" (《個人資訊保護合規管理辦法V1.0》) and "Customer Information Confidentiality System" (《客戶資訊保密制度》) to set out compliance management requirements on the entire life cycle of processing personal information, including the collection, storage, usage, disclosure and cross-border transmission of personal information.

The Data Security Law of the PRC effected on 1 September 2021 sets out the requirements for enterprises to establish a sound data security management system throughout the whole process. As at the Latest Practicable Date, the Group has internally formulated and issued "Data Security Management Regulations" (《資料安全管理規定》), which clearly stipulates the responsibilities, scope of data security management and the supervision methods of each department which uses the information systems of the Group. The Group has also formulated the "Information Security Policy V2.0" (《信息安全性原則V2.0》) to stipulate the rules of data access and exchange within the Group, as well as the response process to external risks. At the same time, the Group has also executed additional confidentiality agreement with the core personnels in processing data possessed by the Group to clarify their confidentiality obligations and responsibilities.

As at the Latest Practicable Date, the Group has strictly complied with its data processing obligations in accordance with the service contracts with third parties. The Group has not received any records of penalties for relevant violations of laws and regulations or had any legal disputes with third parties in relation to data security or cyber security matters.

In summary, the PRC Legal Adviser is of the view that, based on the analysis on the current regulatory regime and the current situation above, the Group is in compliance with the regulatory requirements of the applicable laws and regulations relating to data protection and privacy.

Business Continuity

We have established a guide and procedure for our data centre management staff to ensure the continuity of our operations and perform disaster recovery function.

We have adopted an emergency operating procedure and mitigate potential disruptions from power outages, fires or floods, typhoons and other natural disasters. We conduct emergency drills to further improve our procedure. We also regularly conduct trainings with relevant personnel to ensure their preparedness to manage emergency situations and handle potential contingencies.

In order to ensure the availability of our power supplies, energy transmission as well as fire prevention and detection systems, we implement a monthly operating and inspection plan and annual maintenance plan for relevant equipment.

Audit Committee

We have established an Audit Committee which comprises all independent non-executive Directors to review and supervise our financial reporting process and internal control system. Our Audit Committee has also adopted its terms of reference, which also sets out its duties and obligations for ensuring compliance with relevant laws and regulations. For further biographical details of the independent non-executive Directors, please refer to the paragraph headed "Directors and Senior Management — Board of Directors — Independent non-executive Directors" in this document.

Compliance with Listing Rules

Our internal control policies cover aspects related to corporate governance, connected transactions and securities transactions by our Directors to ensure our Company compiles with the Listing Rules. Our Directors and senior management have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of being a director of a publicly listed company under the Companies Ordinance and the Listing Rules. To monitor the ongoing compliance with the Listing Rules, we will appoint a compliance adviser to keep track of all updates of Listing Rules and ensure adequate disclosures.

Appointment of compliance adviser

We have appointed SPDB International Capital Limited as our compliance adviser with effect from the [REDACTED] to assist our Board on ongoing compliance matters relating to the Listing Rules and/or other applicable securities laws and regulations in Hong Kong.

Appointment of external Hong Kong and PRC legal advisers

We will appoint qualified Hong Kong and PRC law firms upon [REDACTED] when necessary to advise our Group on compliance with the applicable laws and regulations in Hong Kong and the PRC and, if necessary, to provide us with the relevant training from time to time.

Permits and licences

We have assigned a designated staff to maintain a log to monitor the attainment and renewal of the licences, approvals and permits required for our operation and ensure that such relevant licences, approvals, and permits are renewed prior to their respective expiration dates.

To ensure the above compliance culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation, we will regularly conduct internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training.

Without prejudice to the responsibilities of the Board of Directors as a whole, the Audit Committee oversees financial and business risk management and discusses the process by which management assesses and manages the company's exposure to those risks and the steps taken to monitor and control such exposure. For details, please refer to the paragraph headed "Directors and Senior Management — Board committees" in this document.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

We have been aiming for long-term sustainable growth since the inception of our Group. In order to achieve this, we strive to work with all stakeholders to ensure that our Group is not only an exceptional IDC solution service provider, but also a respected market leader. This includes continually assessing and improving our role in the communities and environment in which we operate. We are therefore committed to working with government and regulators, our business partners, clients, employees, industry, community and the public as a whole to play our part in building a healthy, robust and sustainable future.

Board governance and management

We are committed to environmental, social and climate-related issues, and have adopted and implemented measures to ensure that we comply with applicable requirements. Our Board has well-defined responsibilities for overseeing the Company's execution of matters in relation to environmental, social and governance ("**ESG**"), setting up ESG overall visions and strategies, and reviewing the overall ESG performance of the Company at least once a year through an ESG report prepared annually. Principal duties and responsibilities include among others:

- Reviewing and discussing the content and quality of the ESG reports in the Board meeting to ensure that they meet the requirements from the Board and the standards of Appendix 27 to the Listing Rules;
- Monitoring and reviewing the compliance status of ESG-related laws and regulations;
- Reviewing communication channels between the Company and different stakeholders regularly to ensure effective communication;
- Keeping abreast of emerging market treads regarding ESG-related issues which may potentially impact business operations, and reviewing the Company's ESG performance against the goals and targets; and
- Monitoring the cooperation between different departments and urging the related departments to improve ESG strategies.

To facilitate the identification of material ESG-related issues that have significant impact to the Company and its stakeholders, the Company has engaged the services of a third-party ESG consultant (the "**ESG Consultant**") to assist the Company in conducting materiality assessment. The Board has reviewed and validated the result of the materiality assessment conducted by our ESG Consultant.

Measures to identify, assess and manage ESG-related risks

We have adopted various strategies and measures to identify, assess and manage ESG-related risks, including but not limited to:

- establishing communication channels and taking into consideration of the internal stakeholders' opinion to understand ESG-related concerns and how our ESG and climate-related performance have impacted different stakeholders;
- reviewing and referencing MSCI's ESG Industry Materiality Map and the Sustainability Accounting Standards Board's Materiality Map to identify ESG issues material to our Company; and
- engaging ESG Consultant to advise on compliance with ESG matters.

We have identified the following material ESG issues and their potential impacts:

Material ESG issues	Potential Risks, Opportunities and Impacts
Human resource management	Ineffective human resource management may lead to difficulty in recruiting and retaining talents, which will result in high employee turnover rates and decreased productivity.
Data security	Inadequate and inefficient prevention, detection and remediation of data security threats will put the Company's data and the customers' data at risk, which will damage the Company's reputation and influence customer acquisition and retention.
Intellectual property protection	Ineffective intellectual property protection may put the Company at risk of copyright infringement of others' works, leading to litigations while also potentially tarnishing our reputation.

Environmental sustainability

As an internet data centre solution provider, we do not possess any data centres. Therefore, we are not subject to any significant environmental risks. Historically, we have been committed to reasonable deployment of resources, demand-supply optimisation, continuous improvement of the

efficiency of the use of data centre resources and striving for sustainable, energy saving and efficient operation. We believe that everyone in society should do their part in conserving the environment.

We have adopted environmentally friendly practices and policies, including but not limited to:

- switching off all electronic equipment and light when they are not in use;
- installing energy saving lights;
- encouraging waste avoidance by providing recycling bins at easily accessible points;
- using electronic channels for internal communication to minimise paper waste;
- encouraging double-side printing and reusing of wastepaper. Paper for single-side printing would be adopted when handling official documents and confidential documents when necessary;
- switching off all the air conditioner after normal business hours and during non-working days. Encouraging our employees to close the doors;
- ensuring no idling vehicles with running engines;
- reducing water pressure to the lowest level; and
- reminding staff to turn off the faucet tightly

The business of the Company is mainly office operation, thus there are solid waste, indirect greenhouse gases ("**GHG**") generated from the purchase of electricity, as well as little air pollutants emitted from the Company's vehicles. The Company has implemented different measures to control the emissions from our daily operation.

During the Track Record Period, the Company produced the following waste materials, which have been dealt with through the implementation of different environmental measures:

Exhaust Gas

The source of air pollutants of the Company comes from private vehicles that were used in supporting our daily business operation. The Company understands the potential effects of air pollutants and therefore sets a target for minimising air pollutant emissions. We expect to achieve the target of reducing 5% of GHG emissions by 2030 with 2022 as the baseline year after comparing the historical data during the Track Record Period. In order to achieve this goal, the Company may consider to use electric cars as company vehicles to reduce GHG emission.

The Company's air pollutant emissions and GHG emissions during the Track Record Period are as follows:

Air pollutant emissions *Note 1*	**FY2020**	**FY2021**	**FY2022**	**6M2023**
Nitrogen Oxides (NOx) (kg)	3.99	8.65	17.53	2.29
Sulphur Oxides (SOx) (kg)	0.07	0.15	0.31	0.04
Particulate Matter (PM) (kg)	0.29	0.64	1.29	0.17

GHG emissions	**FY2020**	**FY2021**	**FY2022**	**6M2023**
Total GHG Emissions (tCO_2e) (tonnes CO_2 equivalent)	**27.49**	**61.14**	**123.50**	**45.59**
Scope 1 — direct emissions *Note 1*	11.37	24.65	49.97	6.53
Scope 2 — energy indirect emissions *Note 2*	11.06	25.54	65.09	35.54
Scope 3 — other indirect emissions *Note 3*	5.05	10.94	8.44	3.52
Intensity (tCO_2e/RMB million of revenue)	0.08	0.13	0.22	0.07

Notes:

(1) Scope 1 direct emissions include GHG emissions from the use of vehicles. Calculation method is from Appendix II while the emission factors used are from the "Guidelines on Greenhouse Gas Emission Accounting and Reporting" provided by the NDRC.

(2) Scope 2 indirect emissions include GHG emissions from the use of purchased electricity. Calculation method is from Appendix II. The emission factors used are from the "Average Carbon Dioxide Emission Factor of China Regional Power Grid" and the "Guidelines on Greenhouse Gas Emission Accounting and Reporting" published by NDRC.

(3) Scope 3 emissions include other indirect emissions that occurs outside the Company, including (i) methane gas generation at landfill due to disposal of paper waste; (ii) electricity for water treatment and (iii) outbound business trips by employees. The calculation method and emission factors of methane gas generation at landfill due to disposal of paper waste are from Appendix II. The calculation method of electricity for water treatment is from Appendix II and the emission factors are from the "Average Carbon Dioxide Emission Factor of China Regional Power Grid" published by NDRC. The calculation method of outbound business trips by employees is based on the Carbon Emissions Calculator provided by International Civil Aviation Organisation (ICAO).

The Company has tuned to maintain the vehicles in an efficient condition as inefficient car engines will use more fuels and emit more air pollutants. Also, drivers were reminded to ensure no idling vehicles with running engines, so as to minimise air pollutant emissions. As the Company aims to reduce the production of GHG emissions, the Company may face an increase in operation costs in the future, such as increasing the budget for the purchase of the purchase of electric vehicles and increasing the cost of regular vehicle maintenance.

Solid Waste

General office waste is the major non-hazardous waste generated by the Company and the amount of such non-hazardous waste is insignificant to the Company's business operation. Notwithstanding the minimal non-hazardous waste generation of the Company, we have set long-term targets to reduce waste generation by encouraging waste recycling.

The Company strives to promote green office by adopting numerous measures on reducing waste generation as well as raising employee's environmental awareness, including but not limited to:

- Using recycled toner and purchases printing paper with recycled content;
- Evaluating the quantity of office equipment before procurement to avoid overstock;
- Encouraging employees to take notes on used paper and use paper on both sides wherever possible in order to reduce paper consumption;
- Requiring employees to disseminate information by electronic means whenever possible to reduce paper use; and
- Replacing all disposable cups and wooden chopsticks by non-disposable items such as ceramic cups and reusable cutlery.

Energy consumption

As an IDC solution service provider, the Company does not possess any data centres which require high energy consumption for operation. We consume energy mainly from purchased electricity for office operation and use of vehicles. Our energy consumption throughout the Track Record Period is shown as below:

Energy consumption	FY2020	FY2021	FY2022	6M2023
Total Energy Consumption (MWh)	**61.57**	**135.69**	**293.99**	**76.85**
Use of vehicles (MWh) *Note 1*	45.85	99.39	201.47	26.32
Purchased electricity (MWh) *Note 2*	15.72	36.30	92.52	50.53
Intensity (MWh/RMB million of revenue)	0.18	0.28	0.52	0.11

Notes:

(1) Vehicles consumption is calculated based on the actual amount consumed. Calculation method is from Appendix II. The emission factors were calculated with reference to the "Guidelines on Greenhouse Gas Emission Accounting and Reporting" provided by NDRC.

(2) Electricity consumption is calculated based on the actual amount purchased.

The Company is dedicated to reducing electricity consumption and has set long-term measurable targets after comparing the historical data during the Track Record Period. We expect to achieve the target of reducing 3% of electricity consumption by 2030 with 2022 as the baseline year. With the close monitoring of electricity consumption and the implementation of various mitigation measures, it is expected that our Group's electricity consumption will maintain at a stable level in the future despite the expansion of our Group's business. In order to achieve the goal, the Company has implemented a variety of measures to reduce the usage of electricity in the office, including but not limited to:

- separating light switches for different light zones in the office and requiring employees to switch off lighting when zones or rooms are not in use;
- maximising natural light in the workplace as far as practicable and installing motion sensors in areas not frequently used and installing dimmers where possible to adjust light intensity, so as to save electricity consumption;
- requiring employees to switch off the air conditioners for rooms not being used;
- cleaning filters and fan coil units of the air conditioners regularly in order to increase their efficiency; and
- setting computers to automatic standby mode when idling and requiring employees to switch off electronic equipment when leaving office in order to minimise energy wastage from electronic equipment.

Since the Company aims to reduce the consumption of electricity, the Company may face an increase in operation costs, such as purchasing more energy-efficient IT equipments and other energy saving products. Meanwhile, the Company will arrange dedicated staff members to monitor the relevant energy usage in the future, which will also increase the operating costs.

Water consumption

The usage of municipal water contributes to the majority of water consumption for office operation. Thus, the Company inevitably generates a small amount of domestic sewage which is discharged into the municipal sewage pipe network for treatment. Our water consumption throughout the Track Record Period is shown as below:

Water consumption	**FY2020**	**FY2021**	**FY2022**	**6M2023**
Total water consumption (m^3)	135	122	279	133
Intensity (m^3/RMB million of revenue)	0.40	0.25	0.49	0.19

The Company understands the importance of water conservation as water is a precious resource and intends to reduce the intensity level of water consumption in the future. The Company has set a target to continue to promote water conservation. In order to minimise our water consumption, the Company have implemented or will continue to implement the following measures:

- Putting up water saving reminder labels in toilets to raise the employee's awareness of water saving;
- Requiring employees to close the faucet after use; and
- Informing the property management company immediately for arranging maintenance if any dipping tap is found.

Compliance with Relevant Environmental Laws and Regulations

Our costs of managing environmental issues, such as electricity bills and water bills for the three years ended 31 December 2022 were approximately RMB14,400, RMB31,800 and RMB95,400 respectively. Going forward, the Company estimates an annual budget of approximately RMB80,900, RMB80,900 and RMB103,000 in 2023, 2024 and 2025 individually for managing environmental issues and the Company shall continue to review the environmental expenditure and budget for environmental compliance and developing well-spent environmental strategies.

In view of our measures to the resource conservation and emission control as detailed above, our Directors believe that our business operations do not have a material adverse impact on the environment.

According to the environmental impact assessment report and the confirmation letter issued by the relevant PRC environmental authorities, we are in compliance in all material respects with the applicable PRC environmental, health and safety laws and regulations with regard to environmental protection during the Track Record Period. We have met the relevant environmental requirements under the PRC laws and were not subject to any fines or legal action involving material non-compliance with any relevant environmental regulation, nor are we aware of any threatened or pending action by any environmental regulatory authority during the Track Record Period.

Social responsibility

Economic responsibility and employee care

Human capital is valuable for our Company in reaching long-term sustainable development and we believe that human resource management is of utmost importance to the business of our Company. Therefore, we have developed a human resources management policy to enhance the efficiency of human resources management and protect the rights of employees, thereby retaining talents.

As of 30 June 2023, the metrics related to the Group's social indicators are as follows:

Indicators	30 June 2023
Number of employees	80
By gender	
Female	34
Male	46
By employment type	
Full-time	79
Part-time	1
By age group	
<30 years old	28
30–50 years old	52
>50 years old	0
Turnover rate (%)	10
By gender (%)	
Female	10
Male	10
By age group (%)	
<30 years old	18
30 — 50 years old	6
>50 years old	0

Recruitment and dismissal

Our recruitment procedure is fair and open for all candidates while the screening criteria is based on candidate's qualification, work experience and skills and is not affected by other factors such as age, sex, race and nationality. During the date of employment, human resources department will check new employee's documents such as identity cards, academic certificates and household register to confirm if his or her ages, identities, educational background and appearance match his or her supporting documents and to avoid child labour. Whenever an employee offers to resign, human resources department will interview him or her before quitting to find out the reason of resignation as well as to identify and manage staff turnover related problem.

Development and training

We strongly believe that our talents are the cornerstone of our success, so numerous resources have been invested for our employees of all levels in career development and training, including newcomers' training, on-the-job training, professional development seminars and accredited educational courses. We also have comprehensive staff appraisal system and promotion pathways in place to clarify the career advancement opportunities within our Group for our employees.

Remuneration, compensation and benefits

Employees are recognised as the Group's most valuable assets. The Group has set a measurable target, which expects to keep the turnover rate below 20% by 2030. In order to achieve this goal, we offer competitive remuneration package as well as other benefits to minimise turnover rate in the future. According to external and internal salary benchmark, the salary structure will be reviewed annually. Our human resources management policy clearly states that the salary of all employees be determined based on the competencies, experience, skills and qualifications required for a specific post as well as the staff appraisal result. In addition, the Company determines the working hours of employees in accordance with relevant regulations and adopts a five-day workweek arrangement to ensure that employees have sufficient rest time. With the target set, the Company may face an increase in operation costs, such as providing attractive remuneration package and other benefits to retain our employees.

As a way to care about employees, and at the same time stimulate their working initiative, our Company offers all employees a wide range of welfare and benefits. We make contributions to endowment insurance, medical insurance, unemployment insurance, maternity insurance, employment injury insurance, and housing provident fund for all employees. We also offer benefits to employees including festive gifts, marriage gifts, meal allowance and communication allowance.

Health and safety

We devote to providing and maintaining healthy safe workplace for employees in order to minimise the risk of occupational health and safety. Employees are required to strictly comply with the working and operational procedures and the laws and regulations in respect of occupational health and safety so as to prevent accidents. All employees who have passed the probationary period can enjoy free annual body check-ups.

During the Track Record Period, our Company did not violate any laws and regulations related to safe working environment and there were no fatal accidents or work-related accidents and any associated compensation paid to employees. Since our business operation does not involve any dangerous procedures with high risk of health and safety, our Company has made contribution to employment injury insurance for all employees to provide elementary protection. If there are any work-related accidents, we will provide compensation to employees according to relevant laws and regulations.

Diversity of Workforce

We are committed to promoting fairness, diversity and inclusion in the workplace, so all our employees enjoy equal opportunities in all employment activities, ranging from recruitment, training, welfare coverage, career and personal development. We have set a long-term target of achieving a one-to-one ratio of male to female employees in 2030 to demonstrate our dedication to workforce diversity. We highly value anti-discrimination and do not tolerate any form of discrimination on the grounds of age, gender, sexual orientation, disability, race, national or ethnic

origin, family status or any other characteristics protected by law. With the target set, the Company may face an increase in operation costs, such as providing more comprehensive benefits for female employees in order to achieve the goal.

Contribution to the community

We have made contributions to the welfare of society and sharing our corporate social responsibility. For example, we have made monetary donation to combat COVID-19 and have made materials donations to underprivileged. Also, we have sponsored an education development fund of an educational institution to support the education development in the community. Besides, we have organised a number of charitable events and volunteering services for our employees such as blood donations and regular visits to people in need.

Information security

We endeavour to offer our clients efficient disaster recovery solutions and efficient high-performance colocation, network, and power supply. Based on the ISO 27001 information security management standard, we have formulated information security management policies and guidelines which set out different security management framework in various aspects, such as computer equipment, electronic records, software and database, in order to protect all valuable information, data and intellectual property and prevent the occurrence of information security incidents. To further improve the ability and level of prevention and control of network emergencies, we have established a network security incident emergency response plan to effectively and promptly deal with network security incident. Appropriate emergency response measures addressing different network security incidents have been stated in the plan so as to minimise the negative impacts brought by different security incidents on our business operations. Also, we have established an information security management task force to be responsible for identifying, evaluating, and mitigating potential information security risks related to our business operations.

Our information security management system assigns detailed areas of responsibility across our Company to ensure the security of information stored in and transmitted through our data centres. We not only conduct annual internal and external audits, but also invite independent third-party auditors to conduct information security risk assessments on an ad-hoc basis.

Supply Chain Management

Effective supply chain management is the prerequisite to the success of the Information Technology industry business. Therefore, we aims to minimise the environmental and social risks of its suppliers by setting criteria for supplier selection. We will evaluate suppliers' product quality, delivery time, production capacity, compliance and other factors. Suppliers should comply with all relevant local and international laws and regulations regarding anti-bribery, anti-corruption and other unethical business practices. In addition, We will give priority to local suppliers or suppliers that are geographically closer and more accessible to the company to reduce carbon footprint.

Anti-corruption

We uphold the core value of business integrity and have a zero-tolerance attitude towards corruption. We strictly comply with local and international anti-corruption related laws and regulations, including but not limited to Criminal Law of the PRC, Anti-Money Laundering Law of the PRC and Foreign Corrupt Practices Act of the United States. We have formulated a regulation on professional integrity to provide guidance and regulations to avoid any misconduct or bribery behaviour that may damage the Company's economic interests. Employees who are middle management or above are required to sign a professional integrity commitment letter, committing to the Company's regulation on business integrity. Also, anti-corruption trainings are organised regularly to enhance the employee awareness of anti-corruption and professional integrity. Besides, we sign anti-corruption agreements with our clients and suppliers, which generally forbid secret profits, conflicts of interest, corruption arising from sub-contracting and acceptance of gifts.

The Company strictly complies with all relevant law and regulations in respect of all the above mentioned aspects of social responsibility.

The Company also has established internal monitoring mechanisms include setting up a reporting mailbox in the Company, announcing the complaint report hotline to employees and accepting internal supervision. Apart from internal mechanisms which promote the integrity of all employees, the Company also desires to develop and maintain business relationships with partners who uphold the principles of integrity and compliance in their business operations. In order to ensure that the business transactions between both parties comply with the principles of good faith and fair dealings, an anti-corruption and anti-bribery agreement is in place which clearly indicates the procedures of reporting any violation regarding anti-corruption is found during the business cooperation. The whistle-blower's identity will be kept confidential and incentives will be given to the whistle-blower after the reported incident is proved to be true.

OVERALL IMPACT OF THE OUTBREAK OF COVID-19 ON OUR BUSINESS OPERATION

Since 2020, the outbreak of COVID-19 has materially and adversely affected the Chinese and global economies. In response to the COVID-19 pandemic, the PRC government has imposed various restrictions and measures to constrain the spread of the virus, these include stringent lockdown measures, contact tracing system and mass-scale testing campaigns whenever a new cluster of infections was discovered. While effective in containing the outbreak, these measures have hindered daily economic activities and there were a slowdown in IT spending during the first half of 2020, especially on hardware business including devices and IT equipment. Further, the disruption on global supply chain have also affected both the supply and inflationary risks on basic unit such as microchips.

Due to the measures the PRC government imposed, such as restrictions on the mobility and cancellation of public activities, our operations had, to a certain extent, been impacted by delays in business activities and commercial transactions as well as general uncertainties surrounding the duration of the government imposed extended business and travel restrictions. In order to protect

our employees from the epidemic and comply with the government measures, we carried out corresponding measures such as temporary closure of our offices, remote working arrangements and business travel suspension. These measures temporarily reduced the capacity and efficiency of our operations.

Despite the temporary disruption caused by COVID-19, we were able to sustain our business growth and deliver robust revenue growth due to the surge in the market demand for internet and IDC services. For the impact of the outbreak of COVID-19 on our financial performance, please refer to the paragraph headed "Financial Information — Overall Impact of the Outbreak of COVID-19 on Our Financial Performance" in this document.

The outbreak gradually got under control in the second half of 2020, while the PRC government maintained certain hygiene and safety measures to prevent further outbreak, the economic activity in the PRC revived. In particular, the internet and IDC services industry were positively impacted as companies were driven to adopt and implement digital transformations amid restrictions under the pandemic. For instance, according to the National Bureau of Statistics of the PRC, the total revenue of software industry in the PRC has increased by 13.2%, 16.4% and 11.2% year-on-year, respectively for 2020, 2021 and 2022, during the pandemic. The PRC government gradually eased restrictive measures on business and social activities in December 2022, and has re-opened the borders since January 2023. The relaxation of rules such as allowing infected people with mild or no symptoms to quarantine at home shows a strong sign of promoting economic recovery since the outbreak of COVID-19.

Taking into account (i) the above analysis based on the Frost and Sullivan Report and continuous growth of the market despite the outbreak of COVID-19 from 2020 to 2022; and (ii) the general increasing trend of our revenue, being RMB276.1 million, RMB464.3 million and RMB548.8 million for the years ended 31 December 2020, 2021 and 2022 and the increase from RMB265.3 million for the six months ended 30 June 2022 to RMB301.9 million for the six months ended 30 June 2023, our Directors are of the view and the Sole Sponsor concurs that, the outbreak of COVID-19 did not cause and is not expected to cause any material impact on us.

PROPERTIES

Our headquarters is located in Xinwu District, Wuxi, Jiangsu Province, PRC. As at the Latest Practicable Date, we owned one self-owned property with a gross floor area ("**GFA**") of 1,690.2 sq.m., for which we had obtained the relevant real property title certificates and we occupied two leased properties in Qingdao and Hangzhou with a GFA of approximately 240.32 sq.m. and 340 sq.m., respectively.

Non-registration of lease

The Administrative Measures for Commodity House Leasing (the "**Measures**") shall apply to the leasing of commodity houses on state-owned land in urban planning areas, under which lease agreements in relation to such commodity houses have to be registered with the local branch of the relevant property administrative authorities within the time limit prescribed. As at the Latest

Practicable Date, the lease for our Hangzhou office (the "**Hangzhou Lease**") was not registered with the local branch of the relevant property administrative authorities within the time limit prescribed, as the registration and filing applicable to leasing of the commercial housing cannot be made for this property due to its construction on collectively-owned land. As advised by our PRC Legal Adviser, the failure of lease registration and filing applicable to leasing of the commercial housing would not directly affect the legality, validity and enforceability of the lease agreement. We are further advised by the PRC Legal Adviser that we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for the unregistered Hangzhou Lease, on the premise that if the relevant PRC government authorities require us to rectify, and we fail to do so within the prescribed time period.

As at the Latest Practicable Date, we have not received any notice from any government authority in relation to penalty or enforcement.

There is no single property interest of our Group that formed part of non-property activities had a carrying amount of 15% or more of our Group's total assets as at the Latest Practicable Date. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirement 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 of our interests in land or buildings.

INTELLECTUAL PROPERTY

We have registered various trademarks, copyrights, patents, and domain names in the PRC to protect our intellectual property rights. We regard our proprietary intellectual property critical to our business' success.

As at the Latest Practicable Date, we had registered:

- 6 trademarks in the PRC;
- 33 domain names in the PRC;
- 43 software copyrights and 2 copyrights of works in the PRC; and
- 50 patents in the PRC.

For detailed information about our material intellectual property, please refer to the paragraph headed "Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights of our Group" in Appendix IV to this document.

Apart from filing registration applications to protect our intellectual property rights, we will (i) manage, supervise and monitor our daily work regarding intellectual properties; (ii) identify timely registration and authorisation status of intellectual properties; (iii) proactively track the

registration and authorisation status of intellectual properties and take action in a timely manner if any potential conflicts with our intellectual properties are identified; (iv) separate physical areas for technology development areas and business secrets protection areas which are only accessible with authorisation under strict visiting rules; and (v) clearly state all rights and obligations regarding the ownership and protection of intellectual properties in the employment contracts and commercial contracts we enter into.

As at the Latest Practicable Date, to the best knowledge and belief of our Directors after making all reasonable enquiries, we were not aware of any infringement (i) by us of any intellectual property rights owned by third parties; or (ii) by any third parties of any intellectual property rights owned by us. Further, as at the Latest Practicable Date, to the best knowledge and belief of our Directors after making all reasonable enquiries, we were not involved in any litigation or legal proceedings in relation to any material claims of infringement, either threatened or pending, of any intellectual property rights initiated by or against us that had a material and adverse effect on our business.

EMPLOYEES

As at the Latest Practicable Date, we had 95 employees. We had 30, 39, 61 and 80 employees as at 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively, in the PRC.

The following table sets forth the number of our employees by function as at 30 June 2023:

Function	Number of employees	% of total
Research and development	15	18.8%
Sales and marketing	24	30.0%
Services and operations	17	21.3%
Management	14	17.5%
Administration and human resources	7	8.7%
Finance	3	3.7%
Total	80	100.0%

The following table sets forth the number of our employees by geographic location as at 30 June 2023:

Geographic location	Number of employees	% of total
Jiangsu Province	52	65.0%
Zhejiang Province	11	13.7%
Shandong Province	17	21.3%
Total	80	100.0%

Our in-house maintenance and network engineers stand by and manage remotely our managed data centres on a 365/24/7 basis. Our teams are deployed in certain regional operations centres, as well as on site, in order to provide two layers of management and support.

Recruitment standard

To maintain the high level of service, we believe that employees' trainings are essential to ensure that our employees meet certain standards and requirements. Our team has 17 research and development staff as at the Latest Practicable Date.

We believe that our capacity to recruit and retain experienced and skilled talents is crucial to our long-term development. We generally recruit our personnel from the open market. We generally recruit our employees with reference to a number of factors such as their industry experience, their skills, expertise, qualifications and performance during the interview.

We generally enter into employment contracts with each of our employees covering matters such as wages, employment scope and grounds for termination. The salaries and benefits of our employees depend primarily on their position, seniority, type of work and contribution to our Group. They may be subject to up to three months' probation period starting on board. We generally pay our employees a fixed salary and discretionary year-end bonus and other allowances based on their respective positions and responsibilities.

Employee remuneration

We believe that our compensation and benefits packages are competitive within our industry. We did not have any labour disputes that materially interfered with our operations during the Track Record Period, and we believe that our employee relations are good. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, we incurred staff costs of approximately RMB6.8 million, RMB10.9 million, RMB22.9 million and RMB11.1 million, respectively, representing mainly salaries, wages, bonus, and other pension scheme contributions.

Employee opportunities

We are committed to providing all our employees with equal employment opportunities and a workplace culture of honesty, integrity, and mutual respect. We regularly update our employee handbook to address our talent recruitment principles and anti-discrimination policies. As at the Latest Practicable Date, we had 95 employees, of which, 40.0% were female. Female employees comprise 60.0% of our mid to senior level management staff and 25.0% of our Board are women.

We aim to provide our employees with a fair and transparent career development platform, with training opportunities available to all employees. We provide a wide range of orientation for new hires such as on-job training, internal and external knowledge sharing, formal professional training and job related certification.

Employee training

We provide various types of training to our employees, including professional training for engineer and training to our data centre personnel in respect of management of data centres, occupational health, and safety. We believe that these training equip our employees with better skills, technical expertise, and knowledge relevant to our construction projects to perform their duties.

Relationship with employees

We believe that our Group has an amicable relationship with our employees.

During the Track Record Period and up to the Latest Practicable Date, no labour union was established by our employees. During the Track Record Period, we did not experience any material difficulties in the recruitment or retention of experienced staff or skilled personnel, and we did not experience any material labour disputes with our employees, encounter any disruption to our operations due to labour disputes, strikes or work stoppages, receive any notices or orders from relevant government authorities or third parties relating to employment issues, or receive any claims from our employees.

LICENCES, APPROVALS AND PERMITS

As at the Latest Practicable Date, as advised by our PRC Legal Adviser, we had obtained all material licenses and permits required for our business operations (namely, business licenses of our PRC subsidiaries and permits of value-added telecommunication services) in the PRC, and such business licenses and permits have remained in effect. We are not required to obtain any other material licenses or permit in conducting our business operations in the PRC. Our PRC Legal Adviser has advised us that there will be no material legal impediment to renewing business licenses and permits if the PRC subsidiary submits the renewal materials that are in accordance with the PRC laws.

The material operating licences, approvals and permits held by us as at the Latest Practicable Date are summarised as follows.

Licence/Permit	Holder	Granting Authority	Grant Date	Expiry Date	Scope of Business permitted
ICP Licence	Cloud Factory	Ministry of Industry and Information Technology of the PRC	7 February 2022	7 February 2027	*Note 2*
ICP Licence *(Note 1)*	Jiangsu Yiru	Ministry of Industry and Information Technology of the PRC	21 June 2023	21 June 2028	*Note 3*
Telecommunication Network Code Number Resource Usage Certificate (電信網碼號資源使用證書) *(Note 1)*	Jiangsu Yiru	Ministry of Industry and Information Technology of the PRC	6 November 2023	21 June 2028	Short message service access code in the PRC
ICP Licence	Yun Ruitian	Ministry of Industry and Information Technology of the PRC	22 November 2022	2 July 2025	*Note 4*
ICP Licence	Shandong Dianya	Ministry of Industry and Information Technology of the PRC	24 October 2022	15 April 2024	*Note 5*

Note 1: Jiangsu Yiru's ICP Licence and Telecommunication Network Code Number Resource Usage Certificate have already been successfully renewed.

Note 2: The scope of businesses permitted include (1) fixed network domestic data transmission services in the PRC; (2) Internet data centre services in Beijing, Tianjin, Shijiazhuang, Taiyuan, Hohhot, Baotou, Wuhai, Shenyang, Dalian, Changchun, Harbin, Shanghai, Nanjing, Wuxi, Xuzhou, Suzhou, Huai'an, Hangzhou, Ningbo, Hefei, Fuzhou, Nanchang, Jinan, Qingdao, Weifang, Zhengzhou, Wuhan, Changsha, Xiangtan, Changde, Huaihua, Guangzhou, Foshan, Huizhou, Nanning, Liuzhou, Haikou, Chongqing, Chengdu, Deyang, Guiyang, Kunming, Xi'an, Lanzhou, Xining, Haidong, Yinchuan, Urumqi and Karamay; (3) content delivery network services in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong, Henan, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; and (4) Internet access services in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong, Henan, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Note 3: The scope of businesses permitted include (1) Internet data centre services in Beijing, Tianjin, Baoding, langfang, Taiyuan, Hohhot, Baotou, Wuhai, Shenyang, Changchun, Haerbin, Shanghai, Xuzhou, Huaian, Zhenjiang, Hangzhou, Hefei, Fuzhou, Nanchang, Jinan, Weifang, Weihai, Zhengzhou, Wuhan, Changsha, Guangzhou, Nanning, Haikou, Chongqing, Chengdu, Guiyang, Kunming, Lasa, Xi 'an, Lanzhou, Xining, Haidong, Yinchuan, Urumqi; (2) content delivery network services in the PRC; (3) Internet access services in the PRC; and (4) information service (excluding internet information services) in the PRC.

Note 4: The scope of businesses permitted include (1) Internet data centre services in Hohhot and Jinan; (2) content delivery network services in Inner Mongolia and Shandong; and (3) Internet access services (excluding internet access services for internet users) in Inner Mongolia and Shandong.

Note 5: The scope of businesses permitted include (1) Internet data centre services in Taiyuan, Hohhot, Harbin, Xuzhou, Jinan, Qingdao, Guangzhou and Nanning; (2) content delivery network services in Shanxi, Inner Mongolia, Heilongjiang, Jiangsu, Shandong, Guangdong and Guangxi; and (3) Internet access services in Shanxi, Inner Mongolia, Heilongjiang, Jiangsu, Shandong, Guangdong and Guangxi.

During the Track Record Period and as at the Latest Practicable Date, our Group has fully complied with all restrictions and limitations provided in the licences and permits necessary for the operation of our Group.

According to the Regulations on Registration Management of Market Entities (Decree No. 746 of the State Council), the business scope of market entities includes general business projects and licensed business projects. For licensed business projects that are subject to approval in accordance with the law before business scope registration, market entities shall submit the relevant approval documents when applying for registration. Market entities shall proceed with business scope registration in accordance with the classification standards for business projects announced by the registration authority.

According to the above requirements, the business scope on the business license of each of the PRC companies of the Group only sets out the specific types of business being carried out by the Group which does not include restrictions or limitations on geographical locations, and these PRC companies have engaged in businesses beyond the business scope.

We expect to obtain renewed licences and permits before their expiration dates. Our Directors are of the view, and our PRC Legal Adviser opined, that we will not encounter material difficulties in renewing the above licences and/or permits.

For details of the risk of the failure to obtain the licences necessary for the operation of our Group, please refer to the paragraph headed "Risk Factors — Risks Relating to Our Business and Industry — We may fail to obtain, maintain and update licences or permits necessary to conduct our operations in the PRC, and our business may be materially and adversely affected as a result of any changes in the laws and regulations governing the VATS industry in the PRC" in this document.

COMPLAINTS

Our Group places great emphasis on our client's satisfaction of our services. If our client files a complaint in relation to network quality, client service quality and technical support quality, we will report to our clients within a short time after the complaint is filed and will provide a written report within 24 hours after the issue is resolved.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge and belief of our Directors, there had not been any material complaints which had a material adverse effect on our business and results of operations.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

The table below sets out our non-compliance incident during the Track Record Period and up to the Latest Practicable Date which we believe would not have materially affected our Group's operation and financial condition:

Non-compliant incident	Major cause of the non-compliant incident	Legal consequences	Potential impact on our operations and financial condition	Rectification actions
During the Track Record Period, we (i) did not make full contributions to social insurance and housing provident funds for some of our employees; and (ii) we also engaged third party agents (who were Independent Third Parties) to assist with social insurance and housing provident funds' registration and payments.	Our under-contribution to social insurance and housing provident funds' scheme were primarily due to (i) inadvertent oversight of the relevant PRC laws and regulations and the implementation of which vary from city to city; (ii) unwillingness of our employees to participate in the schemes as their salaries would be reduced; (iii) migrant workers' typical unwillingness to participate in the social welfare schemes of the city they temporarily reside given such contributions are generally not transferrable among cities; and (iv) practical impossibility for employees who have already participated in the new rural cooperative medical insurance schemes to take part in social insurance scheme in certain urban areas.	Pursuant to the Relevant PRC laws and regulations, employers who do not make full contributions on time to social insurance and housing provident funds may be subject to payment orders or penalties. An employer who has underpaid and/or failed to pay on time in respect of social insurance may be ordered by the relevant government authorities to make full payment of the outstanding amount within a prescribed time limit, together with a surcharge for late payment at the rate of 0.05% per day from the date on which the outstanding amounts become due. Failure to make payment of the outstanding amount within the prescribed time limit may then attract a fine of up to three times the outstanding amount.	At as the Latest Practicable Date, we obtained confirmations from the relevant government authorities of certain cities and countries which stated that we have not been subject to any administrative penalties and actions by the relevant government authorities which cover all of the Group's employees; and our Company confirmed that no penalty or action has been taken for the under-contribution or the engagement of third party agents in relation to the payment of social insurance and housing provident funds, there is no complaint from employees and the relevant social insurance and housing provident fund authorities did not demand payments of the shortfalls of contributions.	We are committed to be fully compliant with the applicable laws and regulations by gradually making statutory contributions to the social insurance and housing provident fund based on actual salary level of our employees going forward. As an upward adjustment of our payment base will also correspondingly increase the contribution amount by our employees, we are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base. The authorities have not imposed any deadline for our compliance. Our compliance with employee social welfare plans is in part subject to cooperation from our employees, who may not be receptive and may have a different attitude towards such plans due to the requirement that they co-contribute. We will seek assistance from our legal advisers and confirm with the relevant authorities on our assessment of the adjusted payment base. We had reviewed our internal control policies and have designated Mr. Jiang Yanqiu, our executive Director and Ms. Ding Wenxiu, our human resources Director, to closely monitor our ongoing compliance with the relevant PRC laws and regulations in relation to social insurance and housing provident funds contribution, and oversee the implementation of any necessary measures. Our Directors also undertake to use their best endeavours to comply with the relevant laws and regulations.

Non-compliant incident	Major cause of the non-compliant incident	Legal consequences	Potential impact on our operations and financial condition	Rectification actions
	As part of our administrative arrangements, we engaged third party agents to assist with our social insurance and housing provident funds' registration and payments.	An employer which has underpaid and/or failed to pay on time in respect of housing provident funds may be ordered by the relevant government authority to make full payment of the outstanding amount within a prescribed time limit. If the employer fails to make full payment within the prescribed time limit, the relevant government authority may apply to the People's Court of the PRC for enforcement. According to our PRC Legal Adviser, the administrative arrangements in engaging third party agents to assist with registration and payments of social insurance and housing provident funds are not in strict compliance with the relevant PRC laws and regulations, since the obligation to make such contributions shall rest on the Group and should not be delegated to a third party agent.	Our PRC Legal Adviser confirmed that the relevant government authorities have the authority and are competent in giving the confirmations. In view of the confirmations by the relevant government authorities, our PRC Legal Adviser is of the view that the risk of our Group being penalised is remote. On the basis that (i) we have obtained written confirmation issued by the relevant authorities; (ii) our PRC Legal Adviser is of the view that such non-compliant does not constitute material non-compliance behaviour or does not cause any material impact on the Group's business; (iii) our Controlling Shareholders have agreed to indemnify our Group for any demand or penalty arising from this non-compliance incident, (iv) sufficient provisions for the unpaid amounts of social insurance and housing provident fund contributions have been made; (v) our Group confirmed that we had not received any notices or reminders of payment from the relevant authorities; and (vi) there had been no material disputes between our Group and our employees in this regard our Directors believe that this non-compliance incident has no material impact on our business operations or our financial condition, and does not reflect negatively on the ability of our Group, our Directors or our senior management to operate in a compliant manner.	Furthermore, our Controlling Shareholders have agreed to indemnify our Group for any loss arising from such non-compliance incident in connection to our Group.

The provision for the unpaid amounts of social insurance and housing provident fund contributions during the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 amounted to RMB888,000, RMB1.4 million, RMB2.7 million and RMB3.4 million, respectively. We believe that such provision should be sufficient to cover our liabilities in respect of the unpaid social insurance and housing provident fund contributions. The maximum penalty that may be faced by the Group for failing to pay social insurance in full and failing to pay housing provident fund in full under the relevant laws and regulations are a fine of RMB7,316,210.23 and RMB946,399.15, respectively.

According to the certificates issued by the competent social insurance and housing provident fund management departments obtained by the domestic subsidiaries of the Group, these certificates covered all employees of the domestic subsidiaries of the Group who had signed labour contracts.

We have adopted the following internal control measures to ensure that the above non-compliance incidents would not happen again: (i) forbidding from engaging third party agents to assist with social insurance and housing provident funds' registration and payments; (ii) timely payment of the social insurance and housing provident funds from our Company; and (iii) submitting registration of new employees to the social insurance and housing provident authorities under the super revision of our human resources manager. We are of the view, and the Sole Sponsor concurs, that the internal control measures we implemented are adequate and can effectively prevent non-compliance incidents from occurring. During the Track Record and up to the Latest Practicable Date, except as disclosed in this document, we have had no incidents of non-compliance having a material adverse effect on our business operations and financial condition. According to our PRC Legal Adviser, other than those disclosed in this document, we have compiled with all applicable and relevant PRC laws and regulations in all material respects up to the Latest Practicable Date.

During the Track Record Period and as at the Latest Practicable Date, we had not been a party to any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have material and adverse effect on our business, financial condition, and results of operations.

U.S. TRADE RESTRICTIONS

We had transactions with Client I, which was on the Entity List. During the Track Record Period, the revenue generated from Client I constituted 3.1%, 9.3%, 13.0% and 8.0% of our total revenue for years ended 31 December 2021 and 2022 and the six months ended 30 June 2023.

The persons on the Entity List are subject to individual licensing requirements and policies supplemental to those found elsewhere in the Export Administration Regulations ("**EAR**"). More specifically, a license is required for the export, reexport, or transfer (in-country) of items subject to the EAR when an entity on the Entity List is a party to the transaction. Parties to the transaction may include purchasers, intermediate consignees (such as forwarding agents), ultimate consignees, and end-users. The nature of the restrictions imposed by the EAR, and the Entity List specifically, is that of transfer restrictions. The restrictions cover not just products that are produced in the United States and transferred to a purchaser in final form, but also include transfers of (i) non-U.S. produced items which are produced with certain U.S. software, technology or manufacturing equipment, and (ii) items produced with U.S. technologies that are destined to be sold to persons on the Entity List regardless of whether the listed entity is the purchaser, consignee or end-user of such products.

In provision of the IDC Solutions Services, Edge Computing Services and ICT Services and Other Services, the Group's business model is that of a service provider, providing services that include, among others, management services including server racking, data center management

services, server monitoring, management and maintenance services, server load balancing service, emergency reporting, network management and server middleware services, server security service, data backup, business continuity and disaster recovery services, system security services, technical consultation, general reporting, upgrade support and complaint handling. In particular, as the Group has adopted the "non-self-built data center" model and hosts servers and other equipment as part of its IDC Solution Services, the Group does not sell these servers or other equipment to its customers. In view of the business operation of the Group, the Group does not (i) directly or indirectly, deliver products to its customers; (ii) import, directly or indirectly, products from the United States; (iii) transfer products, directly or indirectly, that other companies may have imported from the United States; and (iv) provide services outside the PRC.

The International Sanctions Legal Adviser is of the view and the Directors concur that, as at the Latest Practicable Date, (1) there are no U.S. trade restrictions or regulations that place restrictions on the Group's business; (2) there had not been and there was not likely to be any adverse impact on the Group's business operations as a result of any trade restrictions or regulations; (3) any export control and economic or trade sanctions imposed and/or proposed to be imposed on the PRC and Hong Kong and the Company's customers or suppliers as well as the Group's business dealings or relationship with restricted entities and/or sanctioned customers or suppliers will not have a material adverse impact on the Company. Further, given the proposed [REDACTED] scope and the expected [REDACTED], the involvement by parties in the proposed [REDACTED] will not implicate any applicable International Sanctions on such parties, including the Group, its respective directors and employees, the Company's or its subsidiaries' investors and shareholders.

Taking into account (i) the above analysis and advice of our International Sanctions Legal Advisors; (ii) our Directors' view above; and (iii) the Internal Control Consultant's reviews on our internal control measures relating to sanctions management system and procedures, the Sole Sponsor concurs with our Directors' view that (i) there had not been and there was not likely to be any adverse impact on the Group's business operations as a result of any trade restrictions or regulations; and (ii) the export control and economic/trade sanctions imposed or proposed to be imposed on the PRC and Hong Kong and our customers or suppliers, as well as our business relationship with Client I, which is our only client and/or supplier on the Entity List, is not expected to have a material adverse impact on us.

AWARD AND RECOGNITION

During the Track Record Period and up to the Latest Practicable Date, Cloud Factory received awards and recognition in respect of our services, technology and innovation, significant ones of which are set forth below:

Award/Recognition	Award year	Awarding Institution/Authority
High and New Tech Enterprise	2018	Jiangsu Provincial Department of Science and Technology
Jiangsu Private Science & Technology Enterprise	2018	Jiangsu Private Science & Technology Enterprise Association
ISO 20000 certification for information technology service management system	2020	Xingyuan Certification Centre Co., Ltd
ISO 27001 certification for information security management systems	2020	Xingyuan Certification Centre Co., Ltd
High and New Tech Enterprise	2021	Jiangsu Provincial Department of Science and Technology, Jiangsu Provincial Department of Finance, and Jiangsu Provincial Taxation Bureau of the State Taxation Administration
Top Ten National New Benchmark Enterprises in China's Cloud Service Industry	2021	China Brand Quality Certification Supervision and Management Centre
Credit Rating Certificate: AAA rating	2021	China Comprehensive Credit Assessment Centre
Certificate of Credible Managing Demonstration Unit: AAA level credible managing demonstration unit	2021	China Comprehensive Credit Assessment Centre
Quality Service Credible Certificate: AAA level quality service credible unit	2021	China Comprehensive Credit Assessment Centre

Award/Recognition	Award year	Awarding Institution/Authority
Certificate of Valuing Service and Keeping Credit: AAA level unit that valuing service and keeping credit	2021	China Comprehensive Credit Assessment Centre
China Compulsory Certification of Lingjingyun Edge Computing Host (Intelligent Video Processing Server)	2023	China Quality Certification Centre
Filing Certificate of Information System Security Level Protection (Level 3) (Lingjingyun System)	2023	The Ministry of Public Security of the People's Republic of China
Best Cooperation Award of E-cloud Eco-Partner in 2023	2023	China Mobile Limited