

FINANCIAL INFORMATION

The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in the Accountants’ Report in Appendix I, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed “Risk Factors” and “Business”.

For the purposes of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our fiscal years ended 31 December of such years.

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 highly bespoke, flexible, and constructive IDC Solution Services to our clients, who are the 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, Edge Computing Services, under the brand of *Lingjing Cloud* (靈境雲) was launched and started to realise revenue in 2022. Edge Computing Services represent 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.

We experienced the continuous growth during the Track Record Period. Our total revenue increased by 68.2% from RMB276.1 million for the year ended 31 December 2020 to RMB464.3 million for the year ended 31 December 2021, further by 18.2% to RMB548.8 million for the year ended 31 December 2022, representing a CAGR of 41.0% and increased from RMB265.3 million

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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 net profit amounted to RMB25.4 million, RMB12.7 million, RMB8.0 million and RMB13.2 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. Our adjusted net profit (non-IFRS measure), a non-IFRS measure defined as net profit excluding the impacts of [REDACTED], was RMB20.9 million, RMB13.6 million and RMB19.4 million for the years ended 31 December 2021 and 2022 and the six months ended 30 June 2023, respectively. For details, please refer to the paragraph headed “Financial Information — Non-IFRS Measures: Adjusted Net Profit” of this section.

BASIS OF PREPARATION

The historical financial information of our Group (the “**Historical Financial Information**”) has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “**IASB**”). All IFRSs effective for the accounting period commencing from 1 January 2022, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information consistently throughout the relevant periods. The Historical Financial Information has been prepared under the historical cost convention, except for certain financial assets at fair value through profit or loss (“**FVPL**”), which are carried at fair value.

The preparation of Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4 to the Accountants’ Report in Appendix I to this document.

MAJOR FACTOR AFFECTING OUR RESULTS OF OPERATIONS

Our Group’s financial condition and results of operations have been and will continue to be affected by a number of factors, including those set out below:

Company Specific Factors

Our business and results of operations are generally affected by the development of the China IDC solution service market. We have benefited from rapid growth in this market during recent years and any adverse changes in the data centre market in China may harm our business and results of operations. In addition, we believe that our results of operations are directly affected by the following key factors.

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Ability to source data centres

Our revenue growth depends on our ability to source additional data centre resources. We endeavor to ensure continuous availability of data centre capacity to satisfy clients by maintaining a supply of data centre resources. We expand our sourcing of additional data centre area by purchasing existing data centre capacity from state-owned telecommunication carriers or other small- and-medium data centre owners and operators. Our ability to maintain a growing supply of data centre resources directly affects our revenue growth potential.

If we are unable to obtain suitable new data centre resources or to do so at an acceptable cost to us, our ability to grow our revenue and improve our results of operations would be negatively affected. Additionally, if demand slows unexpectedly, the resulting overcapacity would adversely affect our results of operations.

Ability to improve clients’ retention

Our ability to maintain long-term revenue growth and improve profitability largely depends on our ability to retain our existing clients. In the past, we have been able to (i) deliver consistent quality solution services to our clients with our effective maintenance service team and (ii) cater to the evolving needs of our clients. Therefore, we were able to provide and improve our colocation and infrastructure management services to meet the evolving clients’ needs. We were also committed to providing our clients with various system maintenance and after-sale services so as to respond to clients’ requests in a timely and responsive manner.

We believe the average annual churn rate is an indicator helping us in assessing client loyalty, and we calculate the average annual churn rate 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 for the years ended 31 December 2020, 2021 and 2022 were 2.9%, 2.7% and 3.9%, respectively (the average annual churn rate is not applicable to stub period). We also believe the client’s annual net dollar retention rate indicates our ability to increase revenue from our existing clients. To calculate this rate for the current year, we first identify the clients who engage us for our IDC Solution Services, ICT Services and Other Services in both the current year and immediately preceding year. We then calculate the client’s annual net dollar retention rate for the current year using the revenue attributable to the identified group of clients in the current year as the numerator and the revenue attributable to the same group of clients in the immediately preceding financial year as the denominator. We believe that this rate provides meaningful insight into revenue contribution from our existing clients over periods, indicating our ability to drive their lifetime value.

We consider our client’s annual net dollar retention rate is more meaningful to our business operations given we have been strategically making continuous efforts to drive the lifetime value of our clients while we continue to optimise our client base. We achieved a client’s annual net dollar retention rate of 135.3%, 163.4% and 121.0%, for the years ended 31 December 2020, 2021 and 2022, respectively (the client’s annual net dollar retention rate is not applicable to stub period). We believe such a high and fast-increasing client’s net dollar retention rate during the years not only

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demonstrated clients’ satisfaction with our IDC Solution Services and ICT Services and Other Services, our ability to continuously grow revenue from our existing clients, but also our ability to explore new clients. The relatively high client’s retention rate and the change during the years were generally in line with our strategy of increasing the lifetime value of our clients while optimising and expanding our client base.

Our ability to identify market trends and clients’ needs

As the bridge between the Internet companies and cloud computing service providers on one hand and our state-owned telecommunication carrier suppliers on the other, we believe that our sustainable development and future success rely on our ability to bring flexible, creative and scalable services to our clients. Our strong relationship with the state-owned telecommunication carriers enables us to effectively identify and predict market trends and our clients’ needs and preferences, thereby allowing us to provide valuable and bespoke solutions to our clients and reinforce our close relationship with them. For example, with the emergence of AI content generation technology and the concept of Metaverse, our clients may experience exponential growth of demand for IDC solution and edge computing solution for their high-definition video delivery and algorithmic analysis. We began to introduce CDN services as part of the Edge Computing Services by enabling our clients’ customers to have access to a copy of content closest to them so that content loading time is minimised.

Clients’ satisfaction of our services is a key factor affecting our business. Excellent operation in each stage of our IDC Solution Services, including cross-regional needs for IDC Solution Services and stable provision of network traffic can improve our clients’ loyalty to our services and help us attract new clients.

Our ability to manage costs and improve operational efficiency

We believe our ability in cost management is critical in improving our profitability. By leveraging our infrastructure management experience in expanding and enhancing our IDC Solution Services, we can acquire new clients at a competitive price and deliver our services efficiently due to economies of scale and the spread of overhead costs alongside our business expansion. As a result, our selling and distribution expenses, and administrative expenses as a percentage of our revenue have exhibited a slight increasing trend during the three years ended 31 December 2022 and the six months ended 30 June 2023. Our selling and distribution expenses for the three years ended 31 December 2022 and the six months ended 30 June 2023 amounted to RMB2.7 million, RMB3.6 million, RMB5.1 million and RMB3.2 million, respectively, accounting for 0.96%, 0.77%, 0.93% and 1.06%, respectively, of the revenue during the same period. Our administrative expenses for the three years ended 31 December 2022 and the six months ended 30 June 2023 amounted to RMB9.1 million, RMB22.2 million, RMB29.9 million and RMB17.6 million, respectively, accounting for 3.31%, 4.79%, 5.45% and 5.83%, respectively, of the revenue during the same year. As we continue to grow our business, we expect to benefit from economies of scale and achieve higher operation efficiency.

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Our ability to improve and upgrade service offering mix and optimise client mix to improve profitability

Our ability to scale up our Edge Computing Services is crucial to our revenue, profit growth and profitability improvement in the long term. We offer CDN services under *Lingjing Cloud* and have launched certain other services including improved streaming functions, acceleration function, data security function and storage function under the brand of EdgeIoT (邊緣智能萬物互聯), EdgeDOS (邊緣對象存儲) and EdgeLive (邊緣流媒體直播), which are expected to realise revenue and profit in the second half of 2023. The following table sets forth revenue generated from and gross profit margin of our services during the Track Record Period.

	For the years ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	Revenue RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit margin %	Revenue RMB'000 (unaudited)	Gross profit margin %	Revenue RMB'000	Gross profit margin %
IDC Solution Services	249,251	15.6	437,232	11.5	538,662	12.4	261,240	13.3	295,007	15.4
Edge Computing Services	—	—	—	—	5,202	18.4	—	—	5,285	24.2
ICT Services and Other Services	26,813	56.4	27,044	23.5	4,889	27.8	4,082	13.9	1,570	63.4
Total	276,064	19.6	464,276	12.2	548,753	12.6	265,322	13.3	301,862	15.8

Our Edge Computing Services generally provide higher gross profits margin as compared to our IDC Solution Services, primarily attributable to higher average selling prices. To capitalise on tremendous market opportunities and to continue to scale up our Edge Computing Services to improve profitability, we will continue to invest in the development of our service offerings under our Edge Computing Services. Regarding our IDC Solution Services, with a sizeable number of top-notch clients, it becomes our strategy to focus on our major clients who could generate profitable businesses to us.

In addition, it is our strategy to place increasing focus on our IDC Solution Services and our newly developed Edge Computing Services, which tend to generate stable and sustainable revenue, away from our ICT Services and Other Services, which tend to be project-based and of which future revenue and gross profit margin are less predictable. During the Track Record Period, our revenue from our ICT Services and Other Services decreased from 9.7% in 2020 to 0.9% in 2022 and further to 0.5% in the six months ended 30 June 2023.

Pricing Structure

Depending on the agreement, we agree with our client to either charge them per actual bandwidth usage (95th Percentile Bandwidth Charging Model) or per the number of packet ports used at the fixed price per packet port (Packet Port Charging Model). Accordingly, any variance in the charge rate or charging model will affect our profitability to us.

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Continuous investment in research and development and ability to innovate

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 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 of 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 research and development expenditures continued to grow and amounted to RMB10.6 million, RMB17.0 million, RMB23.6 million and RMB8.8 million, respectively, for the three years ended 31 December 2022 and the six months ended 30 June 2023.

To maintain our competitive market share and solidify our position in the market, we plan to expand our market share by deepening our relationship with our existing clients, increasing our service offerings, enlarging our client base, and pursuing regional opportunities horizontally and deeper service offering depth vertically. To attain this, we strive to attract and retain top talents to expand our research and development team.

OVERALL IMPACT OF THE OUTBREAK OF COVID-19 ON OUR FINANCIAL PERFORMANCE

Starting in January 2020, the COVID-19 pandemic has spread around the world. As at the Latest Practicable Date, such outbreak affected the public health in the world and significantly disrupted global travel and economy. In order to combat the outbreak of COVID-19, the PRC government authorities have imposed various controls and restrictions, which include quarantine orders to restrict entry and exit and temporary business suspension in various provinces and cities.

At the early stage of the outbreak of COVID-19, temporary disruptions were caused to our business operations. As our business operations require a significant amount of capital, we need adequate and timely sources of funding to maintain and further develop our business. Borrowings from financial institutions in China have been one of our major funding sources. During the COVID-19 pandemic, some financial institutions slightly prolonged internal approval processes.

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Despite the foregoing, we believe that the outbreak of COVID-19 did not have a material impact on our cash inflow and liquidity position. During the Track Record Period, none of our debt application was rejected by financial institutions due to the COVID-19 outbreak.

In terms of revenue generation, we were positively impacted by government controls and restrictions implemented under COVID-19 as companies were driven to adopt and implement digital transformations. According to the Frost and Sullivan Report, there has been a continuously increasing market demand for internet and IDC services. During the Track Record Period, our total revenue generated from IDC Solution Services amounted to RMB249.3 million, RMB437.2 million, RMB538.7 million and RMB295.0 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively, primarily due to the business expansion and the continuous rise in our existing clients’ demand for our IDC Solution Services. Moreover, we received government subsidies and government grants from the PRC government for the purpose of easing the impact caused by the COVID-19 pandemic in the sum of approximately RMB3.2 million in 2021.

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 three years ended 31 December 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.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. Our Directors believe that there has not been any material deviation from our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. Our Directors also believe that we do not expect any material changes to these estimates and assumptions in the foreseeable future.

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Set forth below are accounting policies which we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in further detail in notes 3 and 4 to the Accountants’ Report in Appendix I to this document.

Revenue Recognition

Our Group is engaged in the business of providing (i) IDC Solution Services; (ii) Edge Computing Services; and (iii) ICT Services and other Services. Revenue from contracts with clients is recognised when control of goods or services is transferred to the clients at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

Provision of IDC Solution Services

Revenue from the provision of IDC Solution Services is recognised over the scheduled period because the customer simultaneously receives and consumes the benefits provided by the Group. For contracts where considerations are fixed, the related revenues are recognised on a straight-line basis based on the contract price. For contracts where considerations are based on the usage of the IDC Solution Services, the related revenues are recognised based on the consumption of high-speed internet access bandwidth resources at the predetermined rate when the services are rendered throughout the contract term.

Provision of edge computing services

Edge computing services include content delivery network services and other edge functionality which has been traditionally delivered by hardware-centric appliances. The nature of the performance obligation is a single performance obligation to be ready to provide integrated services throughout the contract period. Revenue from the provision of edge computing services is recognised over the scheduled period because the customer simultaneously receives and consumes the benefits provided by the Group. For contracts where considerations are fixed, the related revenues are recognised on a straight-line basis based on the contract price which is fixed. For contracts where considerations are based on the usage of the edge computing services, the related revenues are recognised based on the consumption of high-speed internet access bandwidth resources at the predetermined rate as the services are rendered throughout the contact term.

Provision of ICT Services and Other Services

Revenue from ICT services is primarily generated through the provision of customer-fit information communications technology solutions to our clients, system development and maintenance, consultation services and provision of cloud computing hardware resources. And revenue from other services is primarily generated through the provision of network acceleration

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service, text messaging service, call service and WeChat corporate mini-application development service for our enterprise clients. Revenue is recognised at a point in time when the control of the customer-fit product is transferred to the customer or the service is accepted by the customer.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument of the net carrying amount of the financial asset.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities, and simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Impairment of financial assets and non-financial assets

For details of our accounting policies regarding the impairment of financial assets, please refer to the paragraph headed “Accountants’ Report — II. Notes to the Historical Financial Information — 3. Summary of significant accounting policies — Impairment of financial assets” in Appendix I to this document.

For details of our accounting policies regarding the impairment of non-financial assets, please refer to the paragraph headed “Accountants’ Report — II. Notes to the Historical Financial Information — 3. Summary of significant accounting policies — Impairment of non-financial Assets” in Appendix I to this document.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth our consolidated statements of profit or loss and other comprehensive income with line items in absolute amounts for the periods indicated, which is extracted from the Accountants’ Report in Appendix I to this document:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
CONTINUING OPERATIONS					
Revenue	276,064	464,276	548,753	265,322	301,862
Cost of sales	<u>(222,072)</u>	<u>(407,840)</u>	<u>(479,810)</u>	<u>(229,961)</u>	<u>(254,091)</u>
Gross profit	53,992	56,436	68,943	35,361	47,771
Other income and gains	283	3,476	476	194	738
Selling and distribution expenses	(2,662)	(3,567)	(5,087)	(2,277)	(3,161)
Administrative expenses	(9,137)	(22,229)	(29,880)	(14,007)	(17,645)
Research and development expenses	(10,569)	(17,024)	(23,574)	(13,290)	(8,805)
Impairment losses on financial assets	(160)	114	(465)	479	(1,961)
Other expenses	(207)	(183)	(388)	(167)	(5)
Finance costs	<u>(1,969)</u>	<u>(2,290)</u>	<u>(2,362)</u>	<u>(1,093)</u>	<u>(1,861)</u>
PROFIT BEFORE TAX FROM CONTINUING OPERATION	29,571	14,733	7,663	5,200	15,071
Income tax expense	<u>(4,186)</u>	<u>(2,048)</u>	<u>371</u>	<u>(190)</u>	<u>(1,885)</u>
Profit and total comprehensive income for the year/period	<u><u>25,385</u></u>	<u><u>12,685</u></u>	<u><u>8,034</u></u>	<u><u>5,010</u></u>	<u><u>13,186</u></u>
Profit and total comprehensive income for the year/period is attributable to:					
— owners of the parent	25,385	12,685	8,034	5,010	12,899
— non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>287</u>

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NON-IFRS MEASURES: ADJUSTED NET PROFIT

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net profit (non-IFRS measure) (defined below) as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that the presentation of this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of [REDACTED]. We believe that this measure provides useful information to investors in understanding and evaluating our Group’s consolidated results of operations in the same manner as they do for our Group’s management. However, the use of non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, the non-IFRS financial measures may be defined differently from similar terms used by other companies.

We define “adjusted net profit (non-IFRS measure)” as profit/loss for the year or period and add back [REDACTED]. During the Track Record Period, our [REDACTED] referred to expenses we incurred in connection with the [REDACTED].

The following table sets forth the reconciliations of our non-IFRS financial measure for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 to the nearest measure prepared in accordance with IFRS:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net profit	25,385	12,685	8,034	5,010	13,186
Adjust for:					
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (non-IFRS measure)	25,385	20,929	13,617	8,650	19,366

Our adjusted net profit (non-IFRS measure) for the year decreased by 17.7% from RMB25.4 million for the year ended 31 December 2020 to RMB20.9 million for the year ended 31 December 2021 and further decreased by 34.9% to RMB13.6 million for the year ended 31 December 2022, mainly as a result of the increase in the research and development expenses, which was attributable to (i) the hiring of new and qualified research and development staff and (ii) the testing fee of RMB5.7 million incurred for testing the performance of edge nodes at the CDN infrastructure in Shandong Province, and the increase in administrative expenses attributable to the increase of salaries and benefits of our administration employees.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we generated revenue from three operating segments: (i) IDC Solution Services; (ii) Edge Computing Services; and (iii) ICT Services and Other Services. The IDC Solution Services are currently the largest segment, which accounted for 90.3%, 94.2% and 98.2% of our revenue for the three years ended 31 December 2022.

	For the years ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
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
Total	276,064	100.0	464,276	100.0	548,753	100.0	265,322	100.0	301,862	100.0

During the Track Record Period, our total revenue generated from IDC Solution Services amounted to RMB249.3 million, RMB437.2 million, RMB538.7 million and RMB295.0 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. The increase was primarily due to the business expansion, introduction of new top-notch clients to our client base and the continuous rise in our existing clients’ demand for our IDC Solution Services.

It is our strategy to place increasing focus on our IDC Solution Services and our newly developed Edge Computing Services, which tend to generate stable and sustainable revenue, compared to our ICT Services and Other Services, which tend to be project-based and future revenue is less predictable. For the three years ended 31 December 2022, the proportion of revenue generated from our IDC Solution Services and Edge Computing Services to our total revenue increased from 90.3% to 99.1% and further increased to 99.5% for the six months ended 30 June 2023, while that from our ICT Services and Other Services decreased from 9.7% to 0.9% and further decreased to 0.5% for the six months ended 30 June 2023.

IDC Solution Services

Our IDC Solution Services comprise the provision of colocation services and infrastructure management services. For details on our IDC Solution Services, please refer to the paragraph headed “Business — Our Services — IDC Solution Services” in this document.

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For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, revenue from our IDC Solution Services was approximately RMB249.3 million, RMB437.2 million, RMB538.7 million and RMB295.0 million, respectively, representing 90.3%, 94.2%, 98.2% and 97.7% of our revenue in the same periods.

The following table sets forth the revenue breakdown of (chargeable by bandwidth usage) our IDC Solution Services by the different pricing models.

	For the year ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
By the 95 th Percentile										
Bandwidth Charging										
Model	220,068	88.3	275,116	62.9	466,550	86.6	236,498	90.5	262,000	88.8
By the Packet Port										
Charging Model	4,307	1.7	94,527	21.6	56,595	10.5	15,095	5.8	22,388	7.6
Others ⁽¹⁾	24,876	10.0	67,589	15.5	15,517	2.9	9,647	3.7	10,619	3.6
Total	249,251	100.0	437,232	100.0	538,662	100.0	261,240	100.0	295,007	100.0

Note 1: “Others” includes revenue from IDC Solution Services chargeable by cabinet expenses, IP expenses and others

We generally charge our clients by a mix of the 95th Percentile Bandwidth Charging Model and the Packet Port Charging Model. Such charging mix may vary, depending on the client’s demand for bandwidth usage and supplier’s varying bandwidth unit cost to us year by year. Generally, our clients prefer to be more charged by the 95th Percentile Bandwidth Charging Model due to its pay-as-you-use nature, despite a higher unit cost. Along with our business and operation expansion during the Track Record Period, the revenue from the 95th Percentile Bandwidth Charging Model increased with our revenue growth by 112.0% from RMB220.1 million for the year ended 31 December 2020 to RMB466.6 million for the year ended 31 December 2022 and increased from RMB236.5 million for the six months ended 30 June 2022 to RMB262.0 million for the six months ended 30 June 2023. Due to a rise in the bandwidth cost by the 95th Percentile Bandwidth Charging Model charged by our supplier since 2021, we have been offering more competitive pricing by using our Packet Port Charging Model. This was to encourage our clients to agree with our variation of charging structure through increasing the adoption of Packet Port Charging Model. Thus, although the revenue from the Packet Port Charging Model decreased from 2021 to 2022 due to an overall increase in the cost under this charging model, in general, we witnessed a consequential switch towards the Packet Port Charging Model through the continued increase in revenue, which increased by 1,216.3% from RMB4.3 million for the year ended 31 December 2020 to RMB56.6 million for the year ended 31 December 2022 and increased by 48.3% from RMB15.1 million for the six months ended 30 June 2022 to RMB22.4 million for the six months ended 30 June 2023.

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Edge Computing Services

Our Edge Computing Service is a form of infrastructure and computing service distinguishable from our IDC Solution Services and represents the convergence of the CDN with functionality which has been traditionally delivered by hardware-centric appliances such as DDoS solutions. For details of our Edge Computing Services, please refer to the paragraph headed “Business — Our Services — Edge Computing Services” in this document. The revenue generated from Edge Computing Services amounted to RMB5.2 million for the year ended 31 December 2022, representing a proportion of 0.9% to the total revenue for the year ended 31 December 2022 and amounted to RMB5.3 million, representing a proportion of 1.8% of the total revenue for the six months ended 30 June 2023. As at the Latest Practicable Date, we had already entered into several contracts with our clients in relation to the Edge Computing Services. It is our Group’s strategy to place increasing emphasis on the development of Edge Computing Services given its relatively high profitability, market potential and our clients’ thriving pursuit of higher quality and quicker solution delivery. For details of the financial performance of our Edge Computing Services, please refer to the paragraph headed “Financial Information — Description of Major Components of Our Results of Operations — Gross profit and gross profit margin” of this section.

The following table sets forth the revenue breakdown of our Edge Computing Services by the different pricing models.

	For the year ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
By the 95 th Percentile Bandwidth Charging Model	—	—	—	—	1,022	19.6	—	—	5,124	97.0
By the Packet Port Charging Model	—	—	—	—	4,180	80.4	—	—	—	—
Others ⁽¹⁾	—	—	—	—	—	—	—	—	161	3.0
Total	—	—	—	—	5,202	100.0	—	—	5,285	100.0

Note 1: “Others” includes the prepaid data pack for clients who have relatively smaller demand for bandwidth usage.

The 95th Percentile Bandwidth Charging Model is generally applicable to our Edge Computing Services. The revenue of RMB4.2 million generated under the Packet Port Charging Model for the year ended 31 December 2022 was due to an individual business related to the use of BMS. During the Track Record Period, our Group did not lease any BMS from any BMS suppliers. Instead, the BMS employed by our Group on this occasion were provided by the Weifang branch of Supplier A (the “**Supplier A Weifang Branch**”) for a trial period, due to the established relationship with the Supplier A Weifang Branch. For illustrative purposes only, the estimated leasing cost of such BMS for the trial period would have been approximately RMB240,000 if it had not been provided on a

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free trial basis. With the use of BMS under this circumstance, Client J was charged by the Packet Port Charging Model. As at the Latest Practicable Date, the Supplier A Weifang Branch has terminated the trial period and the adoption of Packet Port Charging Model to our clients is not expected to be prevalent in the future.

Our ICT Services and Other Services

Our ICT Services and Other Services comprise custom-fit ICT services, short message service, phone plan recharge service and WeChat corporate mini-application development service to our enterprise clients. For details of our ICT Services and Other Services, please refer to the paragraph headed “Business — Our Services — ICT Services and Other Services” in this document.

During the Track Record Period, revenue from our ICT Services and Other Services amounted to approximately RMB26.8 million, RMB27.0 million, RMB4.9 million and RMB1.6 million, accounted for 9.7%, 5.8%, 0.9% and 0.5% of our total revenue for the same period respectively, for the three years ended 31 December 2022. We usually provide our ICT Services and Other Services on a project basis per clients’ occasional requests.

The following table sets forth the revenue breakdown of our ICT Services and Other Services.

	For the year ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
ICT services	26,468	98.7	26,981	99.8	4,889	100.0	4,082	100.0	1,566	99.8
Other services ⁽¹⁾	345	1.3	63	0.2	—	—	—	—	3	0.2
Total	<u>26,813</u>	<u>100.0</u>	<u>27,044</u>	<u>100.0</u>	<u>4,889</u>	<u>100.0</u>	<u>4,082</u>	<u>100.0</u>	<u>1,569</u>	<u>100.0</u>

Note 1: “Other services” includes short message service, phone plan recharge service and WeChat corporate mini-application development service.

The ICT services are charged on a case-by-case basis, subject to the technology required, complexity of the projects and the relationship with the clients.

Cost of sales

Our cost of sales primarily consists of IDC Solution Services-related costs, Edge Computing Services-related costs and ICT expenses, mainly contributed from bandwidth cost, cabinet expenses, IP expenses, maintenance expenses. The cost of sales amounted to RMB222.1 million, RMB407.8 million, RMB479.8 million and RMB254.1 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. During the three years ended 31 December 2022 and the six months ended 30 June 2023, the bandwidth cost accounted for the largest portion of our cost of sales, representing 87.7%, 80.3%, 95.1% and 94.9%, respectively, of our cost of sales in the same period. The overall increase was driven by the continuous growth of

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our business. The bandwidth cost refers to the amount charged to us by the state-owned telecommunication carriers and was directly and indirectly affected by the bandwidth usage by our clients. Therefore, the factors affecting the cost of sales of our Company were primarily (i) the volume of business as a result of our clients’ demand and (ii) the adjustment of fees charged by state-owned telecommunication carriers in light of market circumstances.

The following table sets forth our cost of sales by segment, both in absolute amount and as a percentage of our cost of sales for the periods indicated:

	For the years ended 31 December						For the six months ended 30 June				
	2020		2021		2022		2022		2023		
	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000	%	
							(unaudited)				
IDC Solution Services											
— Bandwidth cost	194,667	87.6	327,610	80.3	456,137	95.1	218,552	95.0	241,091	94.9	
— Cabinet/server rack cost	13,535	6.1	57,792	14.1	13,756	2.8	7,091	3.1	7,065	2.7	
— IP address cost	400	0.2	256	0.1	138	0.1	17	0.1	117	0.1	
— Maintenance and other cost ^(Note 1)	1,774	0.8	1,494	0.4	2,005	0.4	787	0.3	1,238	0.5	
Sub-total of IDC											
Solution Services	210,376	94.7	387,152	94.9	472,036	98.4	226,447	98.5	249,511	98.2	
Edge Computing Services	—	—	—	—	4,244	0.9	—	—	4,005	1.6	
ICT Services and Other Services	11,696	5.3	20,688	5.1	3,530	0.7	3,514	1.5	575	0.2	
Total	222,072	100.0	407,840	100.0	479,810	100.0	229,961	100.0	254,091	100.0	

Note 1: Maintenance and other cost refers to cabling of optical fibres per clients’ instructions.

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 bandwidth capacity from us separately in light of their business needs. Our Group will charge the relevant fees according to the procurement cost from our suppliers. 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

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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 sourcing 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.

Gross profit and gross profit margin

The following table sets forth our gross profit both in absolute amount and gross profit margin as a percentage of revenue, by segment for the periods indicated.

	For the years ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	gross profit RMB’000	gross profit margin %	gross profit RMB’000	gross profit margin %	gross profit RMB’000	gross profit margin %	gross profit RMB’000	gross profit margin %	gross profit RMB’000	gross profit margin %
IDC Solution										
Services	38,875	15.6	50,080	11.5	66,626	12.4	34,793	13.3	45,496	15.4
Edge Computing										
Services	—	—	—	—	958	18.4	—	—	995	24.2
ICT Services and										
Other Services	15,117	56.4	6,356	23.5	1,359	27.8	568	13.9	1,280	63.4
Total	53,992	19.6	56,436	12.2	68,943	12.6	35,361	13.3	47,771	15.8

The overall gross profit margin during the Track Record Period generally decreased from 19.6% for the year ended 31 December 2020 to 12.2% for the year ended 31 December 2021 and remained relatively stable at 12.6% for the year ended 31 December 2022 whereas the overall gross profit margin increased from 13.3% for the six months ended 30 June 2022 to 15.8% for the six months ended 30 June 2023. The overall higher gross profit margin for the year ended 31 December 2020 was primarily affected by the high gross profit margin of certain ICT services we provided to our clients, a kind of business segment which was featured with fluctuating and varying

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profit margin from project to project. As our Group continued to expand, our IDC Solution Services and Edge Computing Services have taken over the majority part of our business. During the Track Record period, the factors which affected the gross profit margin of our business include (i) our strategies to develop a new and long-standing business relationship with top-notch Internet companies and cloud computing companies in the PRC through offering clients with competitive prices; (ii) the improved efficiency and utilisation rate of our bandwidth resource due to our enhanced scheduling capacity, resulting in the economies of scale; and (iii) a delay in the implementation of increased cost pass-through to clients, resulting from mismatch between the rise in the fees charged to us and the rise in our price charged to our clients; and (iv) the introduction of *Lingjing Cloud* which provided for higher gross profit margin.

The following table illustrates our Group’s exposure to potential delay in cost pass-through in certain data centres operated by the major branches of Supplier A we frequently cooperate with, based on the revenue generated by the relevant clients as at 31 August 2023:

<u>Name of suppliers</u>	<u>Maturity date of the data centre business agreement</u>	<u>Name of the corresponding clients</u>	<u>Maturity date of the colocation and infrastructure management service agreement</u>	<u>The discrepancy of maturity dates in terms of the number of months</u>	<u>Revenue generated from the relevant clients as at 31 August 2023</u>
					RMB’000
Qingdao branch of Supplier A	18.10.2023 ⁽¹⁾	Client H	30.11.2023	1 ⁽²⁾	13,334
		Client B	31.3.2024	5 ⁽²⁾	21,408
		Client A	30.9.2023	— ⁽³⁾	4,851
		Client I	31.12.2023	2 ⁽²⁾	9,165
		Client J	30.9.2025	23 ⁽²⁾	29,355
		Other clients	31.8.2024	10 ⁽²⁾	8,370
Jinan branch of Supplier A	31.12.2023	Client B	31.8.2024	8	7,313
			31.12.2023	0	14,006

Note 1: According to the data centre business agreement entered into between Qingdao branch of Supplier A and us, upon the expiry date on 18 January 2023, the agreement would be automatically and continuously renewed for three months.

Note 2: The discrepancy of maturity dates in relation to the Qingdao branch of Supplier A was the differences in months between (i) the maturity date of the data centre business agreement on 18 October 2023 when the bandwidth cost was adjusted upward hypothetically and (ii) the maturity date of the relevant colocation and infrastructure management service agreement.

Note 3: The colocation and infrastructure management service agreement with Client A has expired and was under negotiation for renewal. Should it be renewed in November 2023, there will be no potential delay in cost pass-through until the next maturity date of the data centre business agreement with Qingdao branch of Supplier A.

Despite the discrepancy of maturity dates in case there is an upward adjustment of bandwidth cost, our Company will actively collect information to understand the future trend of price change of bandwidth resources in the market. If our Company sees any potential price change in the

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market, we will proactively communicate with clients in advance. Our Company will also try to negotiate price increases with our clients more flexibly instead of waiting to discuss such price increases until the contract is about to be renewed.

Other income and gains

During the Track Record Period, our other income and gains primarily consisted of (i) government grants, and (ii) bank interest and investment income. Government grants was from the local government in Wuxi in support of our business development. Bank interest and investment income mainly represented interest income on bank deposits and wealth management products. Our other income and gain amounted to approximately RMB283,000, RMB3.5 million, RMB476,000 and RMB738,000 for the three years ended 31 December 2022 and the six months ended 30 June 2023, respectively.

Selling and distribution expenses

Our selling and distribution expenses primarily consisted of (i) employee expenses; (ii) entertainment expenses incurred by our sales and marketing employees; (iii) travelling expenses incurred by our sales and marketing employees; (iv) office expenses; and (v) advertising and promotion expenses. As we assess and identify new business opportunities, the growth of our selling and distribution expenses may accelerate opportunistically, and we continue to dedicate selling and marketing efforts to further promote and expand our business. We will also leverage our networking effects to increase selling and marketing efficiency and we expect the proportion of selling and distribution expenses to the revenue to decline as a result.

The following table sets forth our selling and distribution expenses, sorted by nature, for the periods indicated:

	For the year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Employee expenses ⁽¹⁾	1,738	2,357	3,576	1,649	1,715
Entertainment expenses	623	805	1,399	591	1,185
Travelling expenses	107	203	111	37	247
Advertising and promotion expenses	193	198	—	—	14
Office expenses	1	4	1	—	—
Total	2,662	3,567	5,087	2,277	3,161

Note:

(1) Employee expenses refer to salaries, benefits and allowances to our sales employees.

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For details of the reasons for the changes during the Track Record Period, please refer to the paragraph headed “Financial Information — Period-to-period Comparisons of Results of Operations” of this section.

Administrative expenses

Our administrative expenses primarily consisted of (i) employee benefit expenses; (ii) entertainment expenses; (iii) professional service fees, all of which being associated with our employees in general and administrative purposes; and (iv) [REDACTED].

The following table sets forth our administrative expenses, sorted by nature, for the periods indicated:

	For the year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Employee benefit expenses ⁽¹⁾	4,227	6,990	13,626	5,792	6,248
Entertainment expenses	1,235	2,133	2,193	1,159	1,193
Conference and office expenses	1,283	1,957	1,587	834	766
Travelling expenses	514	817	722	270	421
Rental expenses	139	158	410	193	119
Professional service fees	217	391	3,502	1,080	1,270
Depreciation and amortisation expenses	1,102	1,258	1,681	828	1,074
Tax and surcharges	227	182	414	32	176
Bank charges	26	33	60	14	19
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others ⁽²⁾	167	66	102	165	179
Total	9,137	22,229	29,880	14,007	17,645

Notes:

- (1) Employee benefit expenses refer to salaries, benefits and allowances to our administrative employees.
- (2) Others mainly include stamp duties and agent fees for social insurance contributions.

For details of the reasons for the changes during the Track Record Period, please refer to the paragraph headed “Financial Information — Period-to-period Comparisons of Results of Operations” of this section.

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Research and development expenses

Our research and development efforts are mainly focused on enhancing our core capabilities and developing new products and solutions. Our research and development expenses primarily consist of (i) technical support fees; (ii) employees benefit expenses for those engaging in research and development activities; (iii) materials expenses; and (iv) others. We expect to continue to invest significant human resources to further consolidate our leadership in the IDC solution service market and further develop our Edge Computing Services.

The following table sets forth our research and development expenses, sorted by nature, for the periods indicated:

	For the year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Technical support fees ^(Note 1)	6,557	11,907	11,283	10,349	1,281
Employees benefit expenses ^(Note 2)	844	1,620	5,679	2,293	3,132
Material expenses	2,546	2,960	470	399	1,893
Others ^(Note 3)	622	537	6,142	249	2,499
Total	10,569	17,024	23,574	13,290	8,805

Notes:

- (1) Technical support fees mainly represent the outsourced research and development costs in relation to the development of our systems for infrastructure management services, ICT Services and Other Services, CDN service development and patent application expenses.
- (2) Employee benefit expenses refer to salaries, benefits and allowances to our research and development employees.
- (3) Others represent depreciation and amortisation expenses, travelling expenses, intellectual property right services fees and testing fee.

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The following table sets forth our research and development expenses, sorted by nature and business segment, for the period indicated:

	For the year ended 31 December						Six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Technical support fees										
— Edge Computing										
Service-related	2,783	42.4	11,907	100.0	11,283	100.0	10,349	100.0	1,281	100.0
— Others	3,774	57.6	—	—	—	—	—	—	—	—
Total:	<u>6,557</u>	<u>100.0</u>	<u>11,907</u>	<u>100.0</u>	<u>11,283</u>	<u>100.0</u>	<u>10,349</u>	<u>100.0</u>	<u>1,281</u>	<u>100.0</u>
Employees benefit expenses										
— Edge Computing										
Service-related	362	42.9	1,620	100.0	4,543	80.0	1,834	80.0	2,818	90.0
— Others	482	57.1	—	—	1,136	20.0	459	20.0	313	10.0
Total:	<u>844</u>	<u>100.0</u>	<u>1,620</u>	<u>100.0</u>	<u>5,679</u>	<u>100.0</u>	<u>2,293</u>	<u>100.0</u>	<u>3,132</u>	<u>100.0</u>
Material expenses										
— Edge Computing										
Service-related	1,844	72.4	2,960	100.0	16	3.3	1	0.3	1,411	74.6
— Others	702	27.6	—	—	454	96.7	398	99.7	481	25.4
Total:	<u>2,546</u>	<u>100.0</u>	<u>2,960</u>	<u>100.0</u>	<u>470</u>	<u>100.0</u>	<u>399</u>	<u>100.0</u>	<u>1,893</u>	<u>100.0</u>
Others										
— Edge Computing										
Service-related	120	19.3	537	100.0	6,019	98.0	162	65.1	2,257	80.3
— Others	502	80.7	—	—	123	2.0	87	34.9	242	9.7
Total:	<u>622</u>	<u>100.0</u>	<u>537</u>	<u>100.0</u>	<u>6,142</u>	<u>100.0</u>	<u>249</u>	<u>100.0</u>	<u>2,499</u>	<u>100.0</u>

During the Track Record Period, our Group has generally shifted the focus of research and development on the Edge Computing Services. The amount of technical support fees, mainly representing the outsourced research and development costs, peaked in 2021 and 2022 due to preparation and execution of the launch of the Edge Computing Services in 2022. Following the establishment of our Group’s in-house research and development team headed by Mr. Zhu, the need for outsourcing research and development projects have been significantly reduced particularly in relation to the development of our Edge Computing Services, which explained a significant drop in the technical support fees by 87.6% from RMB10.3 million for the six months ended 30 June 2022 to RMB1.3 million for the six months ended 30 June 2023. As the research and development work for our Edge Computing Services are labour-intensive, the employees benefit expenses under the

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research and development of our Edge Computing Services have significantly increased from RMB1.6 million for the year ended 31 December 2021 to RMB4.5 million for the year ended 31 December 2022.

Despite a general reduction in the research and development expenses during the period, the material expenses increased from RMB399,000 for the six months ended 30 June 2022 to RMB1.9 million for the six months ended 30 June 2023 and the others, representing, among others, testing fees, increased from RMB249,000 for the six months ended 30 June 2022 to RMB2.5 million for the six months ended 30 June 2023. The material expenses and others are primarily Edge Computing Service-related, incurred in the testing of our in-progress development of our Edge Computing Services at various edge nodes. The above was mainly because of the shift of our research and development processes from third party research agents to our in-house research and development team, thereby incurring more expenses on material expenses and testing fees while decreasing the technical support fees which mainly consisted of outsourcing fees.

Net impairment losses recognised/(reversed) on financial assets

Our net impairment losses on financial assets primarily represent provision for losses arising from our trade and other receivables in the ordinary course of business.

We record a reversal on impairment loss of RMB479,000 for the six months ended 30 June 2022 and impairment losses on financial assets of RMB2.0 million for the six months ended 30 June 2023.

Other expenses

During the Track Record Period, our other expenses gains primarily consisted of (i) charitable donations and (ii) disposal loss on non-current assets. Charitable donations mainly represented our donations to poverty alleviation charitable organisations in Wuxi. Disposal loss on non-current assets mainly represented the loss incurred in the disposal of certain electronic equipment. We recorded other expenses of approximately RMB207,000, RMB183,000, RMB388,000 and RMB5,000 for the three years ended 31 December 2022 and the six months ended 30 June 2023, respectively.

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Finance costs

Our finance expenses primarily consist of (i) interest expenses on bank borrowing and (ii) interest expenses on lease liabilities. We expect the finance costs to steadily increase per our increasing demand for banking facilities which is in line with business growth.

The following table sets forth our finance costs, by nature, for the periods indicated:

	For the year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest expenses on bank borrowing	1,938	2,262	2,349	1,087	1,835
Interest expenses on lease liabilities	31	28	13	6	26
Total	1,969	2,290	2,362	1,093	1,861

Income tax expenses

Our income tax expense mainly comprises of the current and deferred income tax in the PRC. The table below sets forth the components of our income tax expenses for the periods indicated:

	For the years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Profit before tax	29,571	14,733	7,663	5,200	15,071
Tax at the statutory tax rate	7,393	3,683	1,916	1,300	3,768
Lower tax rates for specific companies	(2,379)	(1,280)	(826)	(501)	(1,614)
Additional deduction of research and development expenses	(1,164)	(1,590)	(2,627)	(1,262)	(1,282)
Tax losses not recognised	—	7	65	31	90
Expenses not deductible for tax	336	1,228	1,101	622	926
Use of tax deductible losses from prior periods	—	—	—	—	(3)
Tax charge at the Group's effective rate	4,186	2,048	(371)	190	1,885

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During the Track Record Period, our effective tax rate was 14.2%, 13.9% and –4.8%, respectively, which were lower than the Enterprise Income Tax rate of 25% in the PRC, primarily due to (i) the qualifications of our Consolidated Affiliated Entities, namely, Jiangsu Yiru, Yun Ruitian, Wuxi Xiankai and Shanghai Xiaojiang, as small low-profit Enterprises, entitled to preferential income tax rate of 10%; (ii) the certification of Cloud Factory as a “High-and-New Technology Enterprise”, entitled to a preferential income tax rate of 15%; and (iii) tax deduction of research and development expenses. As at the Latest Practicable Date, we did not have any disputes with any tax authority.

PRC

Income tax provision of our Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year/period, based on the existing legislation, interpretations, and practices in respect thereof. The general corporate income tax rate in the PRC is 25%. An entity identified as a “High-and-New Technology Enterprise” will be granted a preferential income tax rate of 15%, and an entity certified as a small low-profit Enterprise will be granted a preferential income tax rate of 10%.

Cayman Islands

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Act, and are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands as exempted companies are not subject to tax on income or capital gain. In addition, the British Virgin Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was provided as our Group did not have assessable profit in Hong Kong during the Track Record Period.

PERIOD-TO-PERIOD COMPARISONS OF RESULTS OF OPERATIONS

The six months ended 30 June 2023 compared to the six months ended 30 June 2022

Revenue

Our revenues 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. The increase was primarily driven by the business expansion of our IDC Solutions Services and the launch of our Edge Computing Services.

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IDC Solution Services: Our revenue from IDC Solution Services 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, representing 98.5% and 97.7% of the total revenue for the same period respectively. The increase was mainly caused by (i) business expansion and our clients’ rising demand for our IDC Solution Services; and (ii) an increase in revenue from our major clients due to our strategic emphasis on our cooperation with major clients.

Edge Computing Services: Our revenue from Edge Computing Services amounted to RMB5.3 million for the six months ended 30 June 2023, representing 1.8% of the total revenue for the same period.

ICT Services and Other Services: Our revenue from ICT Services and Other Services decreased by 61.0% from RMB4.1 million for the six months ended 30 June 2022 to RMB1.6 million for the six months ended 30 June 2023, representing a decrease from 1.5% to 0.5% of the total revenue for the same period, consistent with our strategy to place increasing focus on our IDC Solution Services and our newly developed Edge Computing Services, which tend to generate stable and sustainable revenue, away from our ICT Services and Other Services, which tend to be project-based and of which future revenue and gross profit margin are less predictable.

Cost of sales

Our cost of sales increased by 10.5% from RMB230.0 million for the six months ended 30 June 2022 to RMB254.1 million for the six months ended 30 June 2023. The increase was in line with our business and service expansion in each of our IDC Solution Services and Edge Computing Services.

IDC Solution Services: Cost of sales from IDC Solution Services increased by 10.2% from RMB226.4 million for the six months ended 30 June 2022 to RMB249.5 million for the six months ended 30 June 2023, representing a slight decrease from 98.5% to 98.2% of the total cost of sales for the same period.

Edge Computing Services: Our Edge Computing Services, whose operation commenced and started to realise revenue in the second half of 2022. The relevant cost of sales for the six months ended 30 June 2023 amounted to RMB4.0 million, representing 1.6% of the total cost of sales for the same period, which mainly comprised the cost of sales from our services under *Lingjing Cloud*.

ICT Services and Other Services: Cost of sales from ICT Services and Other Services decreased by 83.6% from RMB3.5 million for the six months ended 30 June 2022 to RMB575,000 for the six months ended 30 June 2023, representing a decrease from 1.5% to 0.2% of the total cost of sales for the same period, consistent with our strategy to place increasing focus on our IDC Solution Services and our newly developed Edge Computing Services, which tend to generate stable and sustainable revenue, away from our ICT Services and Other Services, which tend to be project-based and of which future revenue and gross profit margin are less predictable.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 35.0% from RMB35.4 million for the six months ended 30 June 2022 to RMB47.8 million for the six months ended 30 June 2023. Our gross profit margin increased from 13.3% for the six months ended 30 June 2022 to 15.8% for the six months ended 30 June 2023.

IDC Solution Services: Our gross profit margin in IDC Solution Services increased from 13.3% for the six months ended 30 June 2022 to 15.4% for the six months ended 30 June 2023, primarily due to (i) the less-than-proportional increase in the cost of sales in relation to that of the revenue of our IDC Solution Services for the six months ended 30 June 2023 as a result of (a) the reduction in the bandwidth cost by some of our suppliers in light of the economic circumstances, and (b) our Group’s capability of sustaining or increasing the bandwidth price charged to our clients; and (ii) our continuous strategic focus on our major clients who could generate more profitable businesses to us.

Edge Computing Services: Our Edge Computing Services started to realise revenue in the second half of 2022 with a profit margin of 18.4% for the year ended 31 December 2022. The gross profit margin for the six months ended 30 June 2023 was 24.2%.

ICT Services and Other Services: Our gross profit margin in ICT Services and Other Services increased from 13.9% for the six months ended 30 June 2022 to 63.4% for the six months ended 30 June 2023. Our ICT Services and Other Services are project-based and one-off in nature. Thus, the revenue generated therefrom may fluctuate over the periods, depending on the availability and size of projects.

Other income and gains

Our other income and gains increased by 280.4% from RMB194,000 for the six months ended 30 June 2022 to RMB738,000 for the six months ended 30 June 2023, primarily due to the government grants under the Wuxi Technological Innovation and Venture Fund (無錫市科技創新創業資金) by the Science and Technology Bureau of Wuxi (無錫市科技局) and Finance Bureau of Wuxi (無錫市財政局) amounting to approximately RMB300,000 and the bank interest amounting to approximately RMB115,000.

Selling and distribution expenses

Our selling and distribution expenses increased by 39.1% from RMB2.3 million for the six months ended 30 June 2022 to RMB3.2 million for the six months ended 30 June 2023, primarily due to (i) the increase in entertainment expenses by 103.0% from RMB591,000 for the six months ended 30 June 2022 to RMB1.2 million for the six months ended 30 June 2023 and (ii) the increase in travelling expenses of our sales staff from RMB37,000 to RMB247,000, as a result of the increased business development activities and client visits stemming from loosened COVID travel restrictions in 2023.

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Administrative expenses

Our administrative expenses increased by 25.7% from RMB14.0 million for the six months ended 30 June 2022 to RMB17.6 million for the six months ended 30 June 2023, primarily due to a general rise in salaries of non-sales staff by approximately 10% and the engagement with two third-party consulting companies in relation to the consultation services of business development strategy of our Edge Computing Services.

Research and development expenses

Our research and development expenses decreased by 33.8% from RMB13.3 million for the six months ended 30 June 2022 to RMB8.8 million for the six months ended 30 June 2023, primarily due to a decrease in technical support fees by 87.4% from RMB10.3 million for the six months ended 30 June 2022 to RMB1.3 million for the six months ended 30 June 2023. The decrease was mainly attributable to the establishment of the our Group’s in-house research and development team headed by Mr. Zhu, which significantly reduced our need for outsourcing research and development projects particularly in relation to the development of our Edge Computing Services.

Despite a general reduction in the research and development expenses during the period, the material expenses increased from RMB399,000 for the six months ended 30 June 2022 to RMB1.9 million for the six months ended 30 June 2023 and the others increased from RMB249,000 for the six months ended 30 June 2022 to RMB2.5 million for the six months ended 30 June 2023, primarily due to the increase in testing fees and the use of materials for the testing of our in-progress development of our Edge Computing Service at various edge nodes.

Net impairment loss recognised/(reversed) on financial assets

Our net impairment losses reversed on financial assets amounted to RMB479,000 for the six months ended 30 June 2022 whereas our net impairment losses recognized on financial assets amounted to RMB2.0 million for the six months ended 2023 primarily due to an increase in trade receivables, resulting in an increase of bad debt provision.

Other expenses

Our other expenses decreased by 97% from RMB167,000 for the six months ended 30 June 2022 to RMB5,000 for the six months ended 30 June 2023, primarily attributable to a reduction in donation.

Profit for the year

As a result of the foregoing, our profit increased by 164% from RMB5.0 million for the six months ended 30 June 2022 to RMB13.2 million for the six months ended 30 June 2023, primarily due to the increase in the gross profit by 35.0% from RMB35.4 million for the six months ended 30

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June 2022 to RMB47.8 million for the six months ended 30 June 2023 and the decrease in the research and development expenses for the reasons set out above, as partially offset by the increases of selling and distribution expenses and the administrative expenses for the same period.

The year ended 31 December 2022 compared to the year ended 31 December 2021

Revenues

Our revenues increased by 18.2% from RMB464.3 million for the year ended 31 December 2021 to RMB548.8 million for the year ended 31 December 2022. The increase was primarily driven by the business expansion of our IDC Solution Services.

IDC Solution Services: Our revenues from IDC Solution Services increased by 23.2% from RMB437.2 million for the year ended 31 December 2021 to RMB538.7 million for the year ended 31 December 2022, representing an increase from 94.2% to 98.2% to the total revenue for the same period. The increase was mainly caused by (i) business expansion and our clients’ rising demand for our IDC Solution Services; (ii) an increase in revenue from our major clients due to our strategic emphasis our cooperation with major clients; (iii) continued introduction of new major clients to our services; and (iv) the launch of our Edge Computing Services under the brand of *Lingjing Cloud*.

Edge Computing Services: Our Edge Computing Services, whose operation commenced in 2022, started to realise revenue for the year ended 31 December 2022, which amounted to RMB5.2 million, representing 0.9% to the total revenue for the same period.

ICT Services and Other Services: Our revenues from ICT Services and Other Services decreased by 81.9% from RMB27.0 million for the year ended 31 December 2021 to RMB4.9 million for the year ended 31 December 2022, representing a decrease from 5.8% to 0.9% of the total revenue for the same period. Our ICT Services and Other Services are project-based and one-off in nature. Thus, the revenue generated therefrom may fluctuate over the periods, depending on the availability and size of projects.

Cost of sales

Our cost of sales increased by 17.7% from RMB407.8 million for the year ended 31 December 2021 to RMB479.8 million for the year ended 31 December 2022. The increase was in line with our business and service expansion in each of our IDC Solution Services and Edge Computing Services.

IDC Solution Services: Cost of sales from IDC Solution Services increased by 21.9% from RMB387.2 million for the year ended 31 December 2021 to RMB472.0 million for the year ended 31 December 2022, representing an increase from 94.9% to 98.4% to the total cost of sales for the same period, primarily due to the increase in the bandwidth cost, resulting from our clients’ increased bandwidth usage in line with our business growth.

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Edge Computing Services: Our Edge Computing Services, whose operation commenced in 2022, started to realise revenue for the year ended 31 December 2022. The relevant cost of sales for the year ended 31 December 2022 amounted to RMB4.2 million, representing 0.9% to the total cost of sales for the same period, which mainly comprised the cost of our *Lingjing Cloud*.

ICT Services and Other Services: Cost of sales from ICT Services and Other Services decreased by 82.9% from RMB20.7 million for the year ended 31 December 2021 to RMB3.5 million for the year ended 31 December 2022, representing a decrease from 5.1% to 0.7% to the total cost of sales for the same period. The decrease was in line with the drop in our revenue from ICT Services and Other Services in the same period, due to the project-based and one-off nature of the nature of business.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 22.2% from RMB56.4 million for the year ended 31 December 2021 to RMB68.9 million for the year ended 31 December 2022. Our gross profit margin increased from 12.2% for the year ended 31 December 2021 to 12.6% for the year ended 31 December 2022.

IDC Solution Services: Our gross profit margin in IDC Solution Services increased slightly from 11.5% for the year ended 31 December 2021 to 12.4% for the year ended 31 December 2022, primarily due to (i) our improved bandwidth traffic scheduling capacity resulting in our improved efficiency and utilisation rate of our bandwidth resources, resulting in the economies of scale; and (ii) our strategic focus on our major clients who could generate more profitable businesses to us.

Edge Computing Services: Our Edge Computing Services started to realise revenue for the year ended 31 December 2022. The relevant gross profit margin was 18.4%.

ICT Services and Other Services: Our gross profit margin in ICT Services and Other Services increased from 23.5% for the year ended 31 December 2021 to 27.8% for the year ended 31 December 2022.

Other income and gains

Our other income and gains decreased by 86.4% from RMB3.5 million for the year ended 31 December 2021 to RMB476,000 for the year ended 31 December 2022, primarily due to the one-off government subsidies available for the year ended 31 December 2021 for the purpose of easing the impact caused by COVID-19 pandemic being no longer available for the year ended 31 December 2022. The government subsidies for the year ended 31 December 2021 included (i) COVID-19 relief subsidy amounting to RMB3.2 million, (ii) 2021 Xinwu District cultural industry development project subsidy amounting to RMB200,000, (iii) 2021 Wuxi High-tech Zone Information Technology Special Award amounting to RMB50,000 and (iv) others amounting to RMB18,000.

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Selling and distribution expenses

Our selling and distribution expenses increased by 41.7% from RMB3.6 million for the year ended 31 December 2021 to RMB5.1 million for the year ended 31 December 2022, primarily due to the increase in entertainment expenses and the salaries of our sales staff. The employee expenses under the selling and distribution expenses increased by 50.0% from RMB2.4 million for the year ended 31 December 2021 to RMB3.6 million for the year ended 31 December 2022, outpacing the rate of increase of our total revenue which was 18.2% of the same period. Such more-than-proportionate increase was primarily attributable to the rise in the sales commission in relation to our major clients, which was consistent with our strategic focus on our major clients who are usually major industry leaders and could generate more profitable businesses to us.

As a percentage of revenue, selling and distribution expenses increased from 0.8% for the year ended 31 December 2021 to 0.9% for the year ended 31 December 2022.

Administrative expenses

Our administrative expenses increased by 34.7% from RMB22.2 million for the year ended 31 December 2021 to RMB29.9 million for the year ended 31 December 2022, primarily due to (i) the increase of salaries of our administration staff; (ii) the management consultancy fee in relation to the consultations as to the creation of corporate value, human resources management, code of conduct of staff, corporate structure, internal assessment, remuneration management and confidential information management and investment consultations, incurring RMB2.8 million; and (iii) depreciation expenses from newly purchased fixed assets. The employee benefit expenses under the administrative expenses increased by 94.3% from RMB7.0 million for the year ended 31 December 2021 to RMB13.6 million for the year ended 31 December 2022, outpacing the rate of increase of our total revenue which was 18.2% of the same period. Such more-than-proportionate increase was primarily attributable to (i) the resignation compensation to Mr. Cai in recognition of his contribution to our Group; (ii) an increase in Mr. Sun’s remuneration with reference to the corresponding increase in the sales staff’s salaries; and (iii) the general increase in our administrative staff.

As a percentage of revenue, administrative expenses increased from 4.8% for the year ended 31 December 2021 to 5.5% for the year ended 31 December 2022.

Research and development expenses

Our research and development expenses increased by 38.8% from RMB17.0 million for the year ended 31 December 2021 to RMB23.6 million for the year ended 31 December 2022, primarily attributable to (i) the hiring of new and qualified research and development staff including Mr. Zhu Wentao, who is deputy general manager and head of our *Lingjing Cloud* department of our Group, and his team in January 2022 and (ii) the testing fee of RMB5.7 million incurred for testing the performance of edge nodes at the CDN infrastructure in Shandong Province. Our Group tested on the complete lower-tier regions network linking various prefecture-level cities and administrative districts and counties in the Shandong Province which demonstrated the

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efficiency, stability and the operation of our newly established and experimental CDN infrastructure. Our CDN infrastructure is designated to be applicable to different regions in the PRC. Thus, as our CDN infrastructure passed the test in the Shandong Province, no significant additional testing fee is expected to be incurred when they are applied beyond Shandong Province in the future. It was our Group’s long-term strategy to self-develop the proprietary system employed in our Edge Computing Services.

Research and development expenses as a percentage of revenue increased from 3.7% for the year ended 31 December 2021 to 4.3% for the year ended 31 December 2022 consistent with our policy of spending approximately 3% of our revenue volume in research and development.

Net impairment loss recognised/(reversed) on financial assets

Our net impairment losses reversed on financial assets amounted to RMB114,000 for the year ended 31 December 2021 whereas our net impairment losses amounted to RMB465,000 for the year ended 31 December 2022, primarily due to an increase in trade receivables, resulting in an increase of bad debt provision.

Other expenses

Our other expenses increased by 112.0% from RMB183,000 for the year ended 31 December 2021 to RMB388,000 for the year ended 31 December 2022, primarily attributable to charitable donation and setting up scholarship schemes in universities in Jiangsu Province.

Profit for the year

As a result of the foregoing, our profit decreased by 37.0% from RMB12.7 million for the year ended 31 December 2021 to RMB8.0 million for the year ended 31 December 2022 primarily due to the increase in research and development expenses, resulting from the hiring of new and qualified research and development staff and an increase in administration expenses resulting from incurrence of [REDACTED].

The year ended 31 December 2021 compared to the year ended 31 December 2020

Revenues

Our revenues increased significantly by 68.2% from RMB276.1 million for the year ended 31 December 2020 to RMB464.3 million for the year ended 31 December 2021. The increase was primarily attributable to our business expansion in IDC Solution Services.

IDC Solution Services: Our revenues from IDC Solution Services increased by 75.4% from RMB249.3 million for the year ended 31 December 2020 to RMB437.2 million for the year ended 31 December 2021, representing an increase from 90.3% to 94.2% to the total revenue for the same period. The increase was mainly caused by business expansion especially resulting from rising demand of certain major clients for the year ended 31 December 2021. The relatively significant rise in the revenue was mainly attributable to our (i) closer cooperation with Client B and Client F

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with increased transaction volume of data centre resources and (ii) full-year and full-scale cooperation with Client H and Client I in 2021 against their initial cooperation with our Group which mainly started in the second half of 2020. Our Directors confirm that the above are ordinary growth rate within the ordinary course of business. In addition, our Group’s revenue growth rate (75.4%) significantly outperformed that of our industry peers in the carrier-neutral IDC market (36.8%), primarily because of our non-self-built nature, allowing our business to (i) scale up to meet the growing market demand at a faster rate than the IDC solution service providers with self-built data centres, and (ii) allocate resources more flexibly to develop more profitable and revenue generating operations. For details, please refer to the paragraph headed “Financial Information — Period-to-period Comparisons of Results of Operations — The year ended 31 December 2022 compared to the year ended 31 December 2021” in this document. For the definition of our client, please refer to the paragraph headed “Business — Our Clients” in this document.

ICT Services and Other Services: Our revenues from ICT Services and Other Services remained stable at RMB26.8 million and RMB27.0 million for the year ended 31 December 2020 and the year ended 31 December 2021, respectively, representing a decrease from 9.7% to 5.8% to the total revenue for the same period.

Cost of sales

Our cost of sales increased by 83.6% from RMB222.1 million for the year ended 31 December 2020 to RMB407.8 million for the year ended 31 December 2021. The increase was mainly caused by (i) the increase in bandwidth cost, resulting from our clients’ increased bandwidth usage and cabinet fees consistent with business expansion in our IDC Solution Services and (ii) a change in the skill set mix required for new projects, which was normal and customary in the market for ICT Services and Other Services.

IDC Solution Services: Cost of sales from IDC Solution Services increased by 84.0% from RMB210.4 million for the year ended 31 December 2020 to RMB387.2 million for the year ended 31 December 2021, representing an increase from 94.7% to 94.9% to the total costs of sales for the same period, primarily due to increase in bandwidth cost and cabinet fees consistent with our business expansion in our IDC Solution Services for the year ended 31 December 2021.

ICT Services and Other Services: Cost of sales from ICT Services and Other Services increased by 76.9% from RMB11.7 million for the year ended 31 December 2020 to RMB20.7 million for the year ended 31 December 2021, representing a decrease from 5.3% to 5.1% to the total costs of sales for the same period, primarily attributable to a change in the skill set mix required for new projects, which was normal and customary in the market for ICT Services and Other Services.

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Gross profit and gross profit margin

As a result of the foregoing, our overall gross profit for the two years ended 31 December 2021 was RMB54.0 million and RMB56.4 million, respectively, and our overall gross profit margin was 19.6% and 12.2%, respectively. The decrease in our overall profit was primarily due to the decrease in the gross profit margin of our IDC Solution Services and ICT Services and Other Services.

IDC Solution Services: Our gross profit margin in IDC Solution Services decreased from 15.6% for the year ended 31 December 2020 to 11.5% for the year ended 31 December 2021, primarily due to (i) our strategies to develop a new and long-standing business relationship with leading Internet companies and cloud computing companies in the PRC, including Client H and Client I through competitive prices, as reflected in the generally lower gross profit margin of the revenue generated by our new clients (8.9%) as compared against our existing clients (11.7%); and (ii) a delay in the implementation of increased cost pass-through to our clients, resulting from a time mismatch between the rise in the fees charged to us upon the renewal of the data centre business agreements and the rise in our price charged to our clients upon the renewal of the collocation and infrastructure management service agreements. Since our contract with clients are renewed at least on a yearly basis, the rise in bandwidth price to be charged to our clients will only be reflected upon next contract renewal, exhibiting a delay in cost pass-through. For example, Qingdao branch of Supplier A raised bandwidth charge by 9.1% which took effect in 2021. From 2020 to 2021, Client B, Client H and Client G agreed to have the increase in bandwidth charge in part of their engagements by approximately 6.3% to 14.3%, taking effect either within the same year or upon the annual renewal of their collocation and infrastructure management service agreements in the following year. The delay and the unsuccessful attempts of cost pass-through represented approximately 1% decrease in our gross profit margin in 2021. During the daily business operation, our Company will actively collect information to understand the future trend of price change of bandwidth resources in the market. If our Company sees any potential price change in the market, we will proactively communicate with clients in advance. Our Company will also try to negotiate price increases with our clients more flexibly instead of waiting to discuss such price increases until the contract is about to be renewed. For details of the risks related to the implementation of increased cost pass-through, please refer to the paragraph headed “Risk Factors — Fluctuation in bandwidth cost may materially and adversely affect our profitability” in this document.

In addition to the abovementioned mutual and friendly negotiation, per a clause in data centre business agreements with certain branches of Supplier A, our suppliers could also adjust the charging rate before the expiry of the agreement, subject to mutual negotiation (“**Charge Adjustment Clause**”). Similarly, such Charge Adjustment Clause also existed in certain collocation and infrastructure management service agreements with our clients. Our Directors confirmed that it was rare that the parties would invoke the Charge Adjustment Clause. During the Track Record Period, none of the Charge Adjustment Clause in either the data centre business agreements or the

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colocation and infrastructure service management agreements was invoked, resulting in charge variation prior to the expiry of the same. Thus, when our suppliers raised bandwidth charge to us, our general practice is to attempt the bandwidth charge upon the expiry of yearly client agreements.

For details of comparison of our new clients and repeating clients in terms of operating data and financial data, please refer to the paragraph headed “Business — Our Services — IDC Solution Services — Operating data — Number of new clients and repeating clients” in this document.

ICT Services and Other Services: Our gross profit margin in ICT Services and Other Services decreased from 56.4% for the year ended 31 December 2020 to 23.5% for the year ended 31 December 2021, primarily due to our Group’s engagement in the ICT projects in relation to 5G digitalisation of an industry park, partnering with a branch office of Supplier A, which required more complex technology and talent inputs and resulted in a more significant rise in the procurement fees for the projects relative to the revenue for the year. The project was accepted by our Group despite its relatively low profitability primarily because (i) the project can lead to further commercial opportunities for us, (ii) the success of the project would have positive effect on our Group’s reputation, and (iii) the project has competitive advantage in the industry.

Other income and gains

Our other income and gains increased by 1,128.3% from RMB283,000 for the year ended 31 December 2020 to RMB3,476,000 for the year ended 31 December 2021, primarily due to an increase of government grants relating to the introduction of measures and schemes to alleviate the impact of COVID-19 by the local government of the PRC.

Selling and distribution expenses

Our selling and distribution expenses increased by 33.3% from RMB2.7 million for the year ended 31 December 2020 to RMB3.6 million for the year ended 31 December 2021, primarily due to the increase of employee expenses of sales and marketing employees by 41.2% from RMB1.7 million for the year ended 31 December 2020 to RMB2.4 million for the year ended 31 December 2021 as a result of the growth of business and pay rise in line with our business growth. In addition, despite the control measures against COVID-19 pandemic implemented by the PRC government resulting in a continuous decline in the direct contacts with our clients, the amount of entertainment expenses and travelling expenses mildly increased as a result of our business growth.

As a percentage of revenue, selling and distribution expenses decreased from 0.96% for the year ended 31 December 2020 to 0.77% for the year ended 31 December 2021.

Administrative expenses

Our administrative expenses increased by 144.0% from RMB9.1 million for the year ended 31 December 2020 to RMB22.2 million for the year ended 31 December 2021, primarily due to (i) the incurrence of [REDACTED] in the amount of [REDACTED], and (ii) the increase in administrative

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employee benefit expenses from RMB4.2 million for the year ended 31 December 2020 to RMB7.0 million for the year ended 31 December 2021, mainly due to the combined effect of increase in the number of employees and pay rise.

As a percentage of revenue, administrative expenses increased from 3.3% for the year ended 31 December 2020 to 4.8% for the year ended 31 December 2021.

Research and development expenses

Our research and developments increased by 60.4% from RMB10.6 million for the year ended 31 December 2020 to RMB17.0 million for the year ended 31 December 2021, primarily attributable to an increase in the technical support fees in relation to our engagement in new ICT projects. In addition, the employees benefit expenses under the research and development expenses increased by 89.6% from RMB844,000 for the year ended 31 December 2020 to RMB1.6 million for the year ended 31 December 2021, primarily attributable to our Group’s research and development of our Edge Computing Services to be launched.

In addition, research and development expenses as a percentage of revenue decreased slightly from 3.8% for the year ended 31 December 2020 to 3.7% for the year ended 31 December 2021 consistent with our policy of spending approximately 3% of our revenue volume in research and development.

Net impairment losses recognised/(reversed) on financial assets

Our net impairment losses on financial assets amounted to RMB160,000 for the year ended 31 December 2020 while there was a net impairment losses reversed on financial assets amounting to RMB114,000 for the year ended 31 December 2021, primarily due to the more-than-expected repayment of the receivables attributable by Client B in 2021.

Other expenses

Our other expenses remained stable which decreased by 11.6% from RMB207,000 for the year ended 31 December 2020 to RMB183,000 for the year ended 31 December 2021.

Finance cost

Our finance cost increased by 16.3% from RMB1,969,000 for the year ended 31 December 2020 to RMB2,290,000 for the year ended 31 December 2021, primarily attributable to the increase of interest expenses due to the increase in the average annual loan amount taken out during the year for liquidity purposes.

Income tax expense

Our income tax expenses decreased by 52.4% from RMB4.2 million for the year ended 31 December 2020 to RMB2.0 million for the year ended 31 December 2021, primarily due to the decrease in profit before tax.

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Profit for the year

As a result of the foregoing, our profit decreased by 50.0% from RMB25.4 million for the year ended 31 December 2020 to RMB12.7 million for the year ended 31 December 2021.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets out details of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Trade receivables	81,666	97,581	115,066	180,278
Prepayments, other receivables and other assets	2,423	10,321	19,777	47,355
Tax recoverable	160	440	273	270
Amounts due from related parties	84,411	84,231	84,251	—
Cash and cash equivalents	897	47,006	77,986	61,251
	169,557	239,579	297,353	289,154
Current liabilities				
Trade payables	80,288	151,931	171,303	146,642
Other payables and accruals	8,542	15,344	24,921	22,128
Contract liabilities	2,212	133	1,849	98
Amounts due to related parties	2,247	—	—	—
Interest-bearing bank and other borrowings	47,549	42,083	67,013	102,101
Lease liabilities	618	—	192	728
Tax payable	4,810	5,801	2,322	4,065
	146,266	215,292	267,600	275,762
Net current assets	23,291	24,287	29,753	13,392

Our net current assets decreased by 55.0% from RMB29.8 million as at 31 December 2022 to RMB13.4 million as at 30 June 2023, primarily due to (i) the decrease of RMB16.7 million in our cash and cash equivalents; (ii) increase of RMB35.1 million in interest-bearing bank and other borrowings; and (iii) increase of RMB1.7 million in tax payable, which was partially offset by (i) the increase of RMB65.2 million in our trade receivables; (ii) decrease of RMB24.7 million in our

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trade payables; and (iii) increase of RMB27.6 million in our prepayments, other receivables and other assets. Trade payables were normally settled in accordance with contractual terms, pursuant to which our Group generally needs to make payment within a number of days after receiving invoice or completion of bill verification. During the Track Record Period, it was our Group’s and certain of our suppliers’ (mainly Supplier A) established practice to settle substantial trade payables incurred in the previous year in the first half of the subsequent year. Certain branches of Supplier A may tend to request repayment of relatively substantial amount of trade payables incurred in the previous year in the first half of the subsequent year instead of strictly following contractual terms, out of their own working capital need, business situation or internal assessment requirement. Our Group, based on our cash management consideration, will give appropriate responses by either fully meeting their demand or further negotiating with them. Our cash management consideration includes the amount of available banking facilities, the possible amount of interest expenses incurred and progress of the collection of trade receivables. Per our experience, it was more likely than not to comply with our suppliers’ repayment request as much as possible without pushing back in order to maintain a good relationship with our suppliers if (i) the availability of banking facilities supported our working capital need, (ii) the amount of interest expenses incurred was reasonable, (iii) cash collection progress from our clients was normal, given the settlement cycle of our trade receivables was generally shorter than that of our trade payables and (iv) the amount of discount available. Our responses to Supplier A’s request were discretionary, voluntary and independent.

Our net current assets increased by 22.6% from RMB24.3 million as at 31 December 2021 to RMB29.8 million as at 31 December 2022, primarily due to (i) the increase of RMB17.5 million in our trade receivables in line with our growth in credit sales and business expansion; (ii) the increase of RMB9.5 million in our prepayments, other receivables and other assets; and (iii) the increase of RMB31.0 million in our cash and cash equivalents, which was partially offset by (a) the increase of RMB19.4 million in our trade payable; (b) the increase of RMB9.6 million in our other payables and accruals; and (c) the increase of RMB24.9 million in the interest-bearing bank and other borrowings.

Our net current assets increased by 4.3% slightly from RMB23.3 million as at 31 December 2020 to RMB24.3 million as at 31 December 2021, primarily due to (i) the increase of RMB15.9 million in our trade receivables; (ii) the increase of RMB7.9 million in our prepayments, other receivables and other assets; and (iii) the increase of RMB46.1 million in our cash and cash equivalents, which was partially offset by (a) the increase of RMB71.6 million in our trade payables and (b) the increase of RMB6.8 million in our other payables and accruals.

Current Assets

Trade receivables

Trade receivables primarily represent amounts due from third-party clients for our services performed in the ordinary course of business.

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The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	83,535	99,340	117,309	184,303
Less: Allowance for impairment	(1,869)	(1,759)	(2,243)	(4,025)
Trade receivables — net	81,666	97,581	115,066	180,278

Our trade receivables amounted to RMB81.7 million, RMB97.6 million, RMB115.1 million and RMB180.3 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The increase was generally in line with our business expansion.

We apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade and bills receivables. To measure the expected credit losses on trade and bills receivables, trade and bills receivables have been grouped based on shared credit risk characteristics and the aging. The allowance for impairment of trade receivables amount to RMB1.9 million, RMB1.8 million, RMB2.2 million and RMB4.0 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The corresponding expected credit losses, in proportion to the gross carrying amount of trade receivable were 2.2%, 1.8%, 1.9% and 2.2% as at 31 December 2020, 2021 and 2022, and 30 June 2023, respectively.

The credit terms given to trade clients are determined on an individual basis with normal credit period mainly more than 30 days. The aging analysis of the trade receivables based on recognition date is as follows:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	81,666	95,498	114,616	180,202
One to two years	—	2,083	450	76
	81,666	97,581	115,066	180,278

Our trade receivables turnover days slightly decreased from 81.7 days for the year ended 31 December 2020 to 70.5 days for the year ended 31 December 2021, to 70.7 days for the year ended 31 December 2022, primarily due to (i) the Group’s improved credit control; (ii) the Group’s strategic emphasis on our operation with major clients which usually have good credit history; and (iii) early repayment of one of our major clients based on its individual circumstances in 2021. However, the trade receivables turnover days increased to 89.3 days for the six months ended 30 June 2023, primarily because of the slower internal payment process of a major client of our Group,

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Client K. Trade receivables turnover days for a given period are equal to the average net trade receivables from contracts with clients, at the beginning and at the end of period divided by revenues during the period and multiplied by 365 days.

We have assessed the recoverability of the relevant outstanding trade receivables by taking into account of financial position of our clients, credit rating, credit history of our clients, years of relationship between our Group and clients, existence of forecast changes in market or environment that have a significant adverse effect on our clients’ ability to meet their payment obligation to us and other factors.

We will continue to strengthen our management in trade receivables and improve the collection rate in future. Our Directors are of the view that sufficient provision has been made to trade receivables, primarily because (i) we closely monitor the outstanding trade receivables, review on a regular basis the credit records of the relevant clients and make active communications with them, (ii) there were continuous settlements from our clients of the outstanding trade receivables that had not been settled as at 30 June 2023, (iii) the maximum payment cycle of clients is about five to six months, whereas the current account age is still within six months, and the credit risk has not increased significantly, and (iv) the majority of remaining outstanding trade receivables is expected to be collected within one year based on our constant communications with the relevant clients and our previous experience of trade receivables collection with them. Based on the aforementioned, our Directors are of the view that sufficient provision has been made to trade receivables and the risk of not being able to recover the remaining trade receivables, net of provision, in particular for those aged over one year, is relatively low based on our evaluation of the historical credit standing and the credit records of these clients as most of our trade receivables are contributed by major clients. For further information about our accounting for trade receivables and description of our impairment policies, please refer to note 18 to the Accountants’ Report in Appendix I to this document.

Approximately RMB82.0 million, or 44.5% of our trade receivables as at 30 June 2023, were subsequently settled as at 30 September 2023.

Prepayments, other receivables and other assets

Prepayments, other receivables and other assets primarily represent amount prepaid third parties including other receivables, prepaid taxes and other tax recoverable, deposits, prepayment and [REDACTED].

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

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	290	—	—	5,852
Prepaid taxes and other tax recoverable	989	2,461	2,619	—
Deposits	156	1,301	204	259
Prepayment	900	3,823	12,922	35,490
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	114	229	159	182
Less: impairment	<u>(26)</u>	<u>(22)</u>	<u>(3)</u>	<u>(46)</u>
 Total	 <u>2,423</u>	 <u>10,321</u>	 <u>19,777</u>	 <u>47,355</u>

Our prepayments, other receivables and other assets increased by 329.2% from RMB2.4 million as at 31 December 2020 to RMB10.3 million as at 31 December 2021, primarily due to (i) other receivables of RMB7.1 million due to the purchase of AI computing equipment and its leaseback pursuant to the cooperation with the Qinghai Branch in relation to the development of Edge Computing Services, for details of which please refer to the section headed “Business — Our Services — Edge Computing Services — Arrangement to develop Edge Computing Services” in this document; (ii) our answer to certain suppliers’ request for our early payment to them per our commercial negotiations; and (iii) capitalised [REDACTED] of [REDACTED]. Such prepayments, other receivables and other assets increased to RMB19.8 million as at 31 December 2022 and further increased to RMB47.4 million as at 30 June 2023, primarily due to our answer to certain suppliers’ request for our early and premature payment to them per our commercial negotiations. Certain suppliers may tend to request prepayment in a relatively substantial amount out of their own working capital need, business situation or internal assessment requirement. Our Group, based on our cash management consideration, will give appropriate responses by either fully meeting their demand or further negotiating with them. Our cash management consideration includes the amount of available banking facilities, the possible amount of interest expenses incurred and progress of the collection of trade receivables. Per our experience, it was more likely than not to comply with our suppliers’ repayment request as much as possible without pushing back in order to maintain a good relationship with our suppliers if (i) the availability of banking facilities supported our working capital need, (ii) the amount of interest expenses incurred was reasonable, (iii) cash collection progress from our clients was normal or (iv) the amount of discounts available. Our response was discretionary, voluntary and independent.

Approximately RMB32.6 million or 68.9% of our prepayments, other receivables and other assets as at 30 June 2023 were subsequently settled as at 30 September 2023.

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Amounts due from related parties

The amounts due from related parties mainly arose from our Controlling Shareholders or the companies controlled by them. The following table sets forth the amounts due from related parties as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Due from related parties — non-trade-related:				
Controlling shareholder	84,411	84,231	84,251	—
Other receivables — net	84,411	84,231	84,251	—

Our amounts due from related parties mainly represented on advancement of interest-free loan to one of our Directors. They remained stable as at 31 December 2020, 2021 and 2022 and was fully repaid as at 30 June 2023.

The balance of the amounts due from related parties — controlling shareholders represented the cash advance to Mr. Sun temporarily for his personal use.

The Directors believe it is a normal practice to make advancements and repayments between a controlling shareholder and a privately owned company. It is not against the laws of the places of incorporation of the relevant subsidiaries or their articles of association to advance cash to the controlling shareholder or a director. As at 30 May 2023, Mr. Sun has fully settled the outstanding balance.

Mr. Sun further undertakes that the advances activities will be discontinued after the [REDACTED]. Our Company has established loan management policy regulating our Company’s lending to Directors and members of senior management (the “**Loan Management Policy**”). According to the Loan Management Policy, any money to be lent to or any guarantee to be made in favour of our Directors, supervisors and members of senior management shall be approved in the general meeting of our Company. Such lending or guarantee shall be in written form and signed by both parties, detailing the amount of loan, interest, repayment method, lending purpose, loan tenure and default provisions.

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Current liabilities

Trade payables

Trade payables mainly represent IDC Solution Services-related costs (bandwidth costs, cabinet expenses, IP expenses, maintenance expenses), Edge Computing Services-related costs and ICT expenses for services provided to us that remained unpaid. The following table sets forth our trade and other payables as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	80,288	151,931	171,303	146,642

Our trade payables increased by 89.2% from RMB80.3 million as at 31 December 2020 to RMB151.9 million as at 31 December 2021, further increased by 12.8% to RMB171.3 million as at 31 December 2022 and decreased by 14.4% to RMB146.6 million as at 30 June 2023, primarily due to an increase in bandwidth expenses resulting from our increased procurement in line with our business expansion. However, our trade payables decreased to RMB146.6 million as at 30 June 2023, primarily due to the settlement of certain substantial trade payables incurred mainly from Supplier A in the previous year per our established practice with our suppliers. For details please refer to the paragraph headed “Financial Information — Discussion of Certain Key Balance Sheet Items” in this section.

Our suppliers usually offer a credit period of approximately 90 to 150 days to us, which exceeds the credit terms that are generally 90 days granted by our five largest suppliers. The difference was the time taken for bill verification process. Per the contractual terms, our Group is generally required to make payment within credit terms after bill verification or receiving invoice. Bill verification usually takes 30 to 60 days. It takes place when our Group reconciles with the supplier and checks the bandwidth usage. After the bill is verified, the supplier will issue an invoice at the specific time determined by our supplier at its discretion, after which our Group is expected to settle the bill within the agreed number of days provided under the contracts (the “**Bill Verification Process**”). Thus, although credit terms of our five largest suppliers are generally within 90 days, the trade payables are actually settled within 90 to 150 days due to the Bill Verification Process.

For the same reason, our trade payable turnover days remained relatively stable at 116.3, 103.9 and 122.9 days for the three years ended 31 December 2022 and 114 for the six months ended 30 June 2023, exceeding the general credit terms of 90 days. During the Track Record Period, the general stability of our turnover days was mainly due to established credit purchase policy with our existing suppliers and in line with the credit period our suppliers provided to us. Trade payable turnover days for a given period are equal to average trade payable balances at the beginning and at the end of the period, divided by the sum of cost of sales during the period, and then multiplied by 365 days.

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The following table sets forth the aging analysis of our trade payables based on recognition date:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Aging				
Within 3 months	51,964	95,060	99,933	115,495
3 to 6 months	13,852	55,447	59,864	25,427
6 to 12 months	12,178	1,408	11,258	5,602
Over 1 year	<u>2,294</u>	<u>16</u>	<u>248</u>	<u>118</u>
	<u>80,288</u>	<u>151,931</u>	<u>171,303</u>	<u>146,642</u>

Our Group’s main trade payables as at 31 December 2022 were not overdue according to the corresponding procurement contract or daily business practices. Approximately RMB48.2 million or 32.9% of our trade payables as at 30 June 2023 were subsequently settled as at 30 September 2023 while approximately RMB4.0 million or 2.7% of our trade payables as at 30 June 2023 were overdue as at 30 September 2023 according to the corresponding procurement contract or daily business practices.

Other payables and accruals

Other payables and accruals primarily represent (i) other tax payable; (ii) payroll and welfare payable; and (iii) other payables.

The following table sets forth our other payables and accruals as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Other tax payable	4,672	5,130	10,724	7,230
Payroll and welfare payable	1,870	3,177	7,772	5,531
Other payables	<u>2,000</u>	<u>7,037</u>	<u>6,425</u>	<u>9,367</u>
Total	<u>8,542</u>	<u>15,344</u>	<u>24,921</u>	<u>22,128</u>

Our other payables and accruals increased by 79.6% from RMB8.5 million as at 31 December 2020 to RMB15.3 million as at 31 December 2021, increased further to RMB24.9 million as at 31 December 2022 and decreased by 11.2% to RMB22.1 million as at 30 June 2023, primarily due to (i) an increase of other tax payable including value-added tax, urban construction and maintenance

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tax and stamp duty in line with our business expansion; (ii) an increase in the general salary level, number of employees and social contribution amount; and (iii) an increase in other payable due to building and renovation cost of new office premises in Wuxi in 2021.

Approximately RMB8.6 million or 38.9% of our other payables and accruals as at 30 June 2023 were subsequently settled as at 30 September 2023.

Contract liabilities

Contract liabilities are recognised when a payment is received or a payment is due, whichever is earlier, from a client before our Group transfers the related goods or services. Our contract liabilities decreased by 94.0% from RMB2.2 million as at December 31 December 2020 to RMB133,000 as at 31 December 2021. Our contract liabilities increased by 1,253.4% from RMB133,000 as at 31 December 2021 to RMB1.8 million as at 31 December 2022 but decreased by 94.6% from RMB1.8 million as at 31 December 2022 to RMB98,000 as at 30 June 2023. RMB5,000 or 5.1% of our contract liabilities as at 30 June 2023 were subsequently recognised as at 30 September 2023.

Amounts due to related parties

The amounts due to related parties mainly arose from the advance from our Controlling Shareholder. The following table sets forth the amounts due to related parties as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Due to related parties —				
non-trade-related:				
Company controlled by the				
controlling shareholder	2,247	—	—	—
	2,247	—	—	—

Our amounts due to related parties amounted to RMB2.2 million, nil, nil and nil as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. Our amounts due to related parties were non-trade in nature, unsecured and interest-free.

Our Directors confirm that all material related-party transactions were conducted on an arm's length basis and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance.

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Interest-bearing bank and other borrowings

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our interest-bearing bank and other borrowings amounted to RMB47.5 million, RMB42.1 million, RMB67.0 million and RMB102.1 million, respectively. The increase in the interest-bearing bank and other borrowings from RMB47.5 million as at 31 December 2020 to RMB102.1 million as at 30 June 2023 was consistent with our business expansion, where our Group required bank borrowing for liquidity purposes.

During the Track Record Period and up to the Latest Practicable Date, bank borrowings were guaranteed by certain shareholders of our Company and their close associates (including the Controlling Shareholder and his ex-spouse), senior management (including the staff in the capacity of then chief representative) or our Group’s subsidiaries, or pledges of trade receivables or patent rights, and such guarantee has been discharged on 26 May 2023. For details on the guarantee provided by certain guarantee certain shareholders and their close associates, please refer to note 24 to the Accountants’ Report in Appendix I to this document.

The following table sets forth the effective interest rates of our borrowing as at the dates indicated:

	As at 31 December		
	2020	2021	2022
Bank borrowings — secured	3.80%–4.55%	3.90%–4.85%	3.80%–4.50%
Other borrowings — secured	8.64%–12.60%	—	—

As at the dates indicated, interest-bearing bank and other borrowings were repayable as follows:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings repayable within one year	42,713	42,083	67,013	102,101
Other borrowings repayable within one year	4,836	—	—	—
	47,549	42,083	67,013	102,101

The amount of unutilised bank facilities as at 31 December 2020, 2021 and 2022 and 30 June 2023 were nil, nil, RMB65.0 million and RMB203.0 million, respectively.

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Lease liabilities

Our Group has lease contracts for office premises used in our operation. Leases of office premises generally have lease terms between 24 and 36 months. Lease liabilities represent the present value of outstanding lease payments under our lease agreements. Our lease liabilities decreased from RMB618,000 as at December 31 December 2020 to nil as at 31 December 2021 primarily attributable to the termination of lease of our Wuxi office, but increased to RMB192,000 as at 31 December 2022 and RMB1.4 million as at 30 June 2023.

For discussion of factors affecting our results of operations during the respective periods, please refer to the paragraphs headed “Financial Information — Period-to-period Comparison of Results of Operations — The year ended 31 December 2022 compared to the year ended 31 December 2021” and “Financial Information — Period-to-period Comparison of Results of Operations — The year ended 31 December 2021 compared to the year ended 31 December 2020” of this section.

Non-Current Assets/Liabilities

The following table sets forth our non-current assets and non-current liabilities as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	2,322	12,508	14,234	19,252
Right-of-use assets	587	184	215	1,553
Other intangible assets	14	32	308	267
Deferred tax assets	744	632	1,167	1,140
Other non-current assets	—	—	—	18,950
 Total non-current assets	 3,667	 13,356	 15,924	 41,162

Property, plant and equipment

Property, plant and equipment are stated at the historical cost less accumulated depreciation and any impairment loss. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs for bringing the asset to its working condition and location for its intended use.

Our property, plant and equipment primarily consist of computers and electronic equipment, office furniture and equipment, and leasehold improvements. Our property, plant and equipment increased by 443.5% from RMB2.3 million as at 31 December 2020 to RMB12.5 million as at 31 December 2021, primarily due to the acquisition of a new office property in Wuxi for our operation

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during the year, increased by 13.6% to RMB14.2 million as at 31 December 2022, primarily due to purchases of office equipment and company vehicle and increased by 35.9% from RMB14.2 million as at 31 December 2022 to RMB19.3 million as at 30 June 2023, primarily due to the additional procurement of relevant equipment for our Edge Computing Services.

Right-of-use assets

Our right-of-use assets relate primarily to leases of office space at our Wuxi headquarters and other branches. Our right-of-use assets decreased by 68.7% from RMB587,000 as at 31 December 2020 to RMB184,000 as at 31 December 2021, primarily due to the termination of lease of our Jinan office as part of our business consolidation, slightly increased by 16.8% to RMB215,000, primarily due to entering into new lease of our Hangzhou office and increased by 644.2% from RMB215,000 as at 31 December 2022 to RMB1.6 million as at 30 June 2023, primarily due to new leases of our offices in Hangzhou and Shandong Province.

Other intangible assets

Our intangible assets primarily comprise software we purchased for use in our ordinary course of business. Our intangible assets increased by 128.6% from RMB14,000 as at 31 December 2020 to RMB32,000 as at 31 December 2021 primarily due to our purchase of additional computer systems software, further increased by 862.5% to RMB308,000 as at 31 December 2022 primarily due to further purchase of software and system for operational purposes but decreased by 13.3% from RMB308,000 as at 31 December 2022 to RMB267,000 as at 30 June 2023, primarily attributable to the amortisation of the software and system purchased previously.

Other non-current assets

Other non-current assets primarily comprise receivables of long-term receivables from a third party. Pursuant to a series of arrangements for the six months ended 30 June 2023, our Group purchased from a third party AI computing equipment and leased it back to such third party. For details of the finance lease arrangements, please refer to the section headed “Business — Our Services — Edge Computing Services — Arrangement to develop Edge Computing Services” in this document.

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KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios/metrics for the periods indicated:

	For the year ended/As at 31 December			For the six months ended/ As at 30 June
	2020	2021	2022	2023
Gross profit margin (%)	19.6	12.2	12.6	15.8
Net profit margin (%) ⁽¹⁾	9.2	2.7	1.5	4.4
Return on equity (%) ⁽²⁾	94.2	33.7	17.6	24.3
Return on total assets (%) ⁽³⁾	14.7	5.0	2.6	4.0
Interest coverage ⁽⁴⁾	16.0	7.4	4.2	9.1
Current ratio ⁽⁵⁾	1.2	1.1	1.1	1.0
Quick ratio ⁽⁶⁾	1.2	1.1	1.1	1.0
Gearing ratio ⁽⁷⁾	1.8	1.1	1.5	1.9
Net debt to equity ratio ⁽⁸⁾	1.7	N/A	N/A	0.8

Notes:

1. Net profit margin is calculated based on our profit for the respective year/period attributable to owners of our Company divided by total revenue for the same year/period and multiplied by 100%.
2. Return on equity is calculated based on our profit for the respective year/period attributable to owners of our Company divided by the average balance of total equity attributable to owners of our Company of the beginning and end of the respective year/period and multiplied by 100%.
3. Return on total assets is calculated based on our profit for the respective year/period divided by the average balance of our total assets at the beginning and end of the respective year/period and multiplied by 100%.
4. Interest coverage is calculated on the profit before interest and tax for the respective year/period divided by the interest on interest-bearing borrowings and lease liabilities for the respective year/period.
5. Current ratio is calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
6. Quick ratio represents current assets less inventories divided by current liabilities of the same date.
7. Gearing ratio is calculated based on the total debt (representing interest-bearing bank borrowings and lease liabilities) as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
8. Net debt to equity ratio is calculated based on the net debt divided by total equity and multiplied by 100% as at the end of each respective year/period. Net debt includes all interest-bearing bank borrowings net of cash and cash equivalents.

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Gross profit margin

Our gross profit margin decreased from 19.6% for the year ended 31 December 2020 to 12.2% for the year ended 31 December 2021, and 12.6% for the year ended 31 December 2022 but increased to 15.8% for the six months ended 30 June 2023. The slight fluctuation in gross profit margin during the Track Record Period was mainly the change in the gross profit margin in our IDC Solution Services during the period. For details, please refer to the paragraph headed “Financial Information — Description of Major Components of our Results of Operations — Gross profit and gross profit margin” of this section.

Net profit margin

Our net profit margin decreased from 9.2% for the year ended 31 December 2020 to 2.7% for the year ended 31 December 2021, primarily due to [REDACTED] and the decrease of our gross profit margin. Our net profit margin further decreased from 2.7% for the year ended 31 December 2021 to 1.5% for the year ended 31 December 2022, primarily due to increased research and development expenses and employee benefit expenses of administrative staff, but increased to 4.4% for the six months ended 30 June 2023, primarily attributable to the increase in our gross profit margin and a decrease in research and development expenses. For details, please refer to the paragraph headed “Financial Information — Period-to-period Comparisons of Results of Operations” of this section.

Return on equity

Our return on equity decreased from 94.2% for the year ended 31 December 2020 to 33.7% for the year ended 31 December 2021, primarily due to (i) the decrease in net profit of approximately RMB12.7 million mainly due to the incurrence of [REDACTED] for the year, and (ii) the increase in total equity as a result of the accumulation of profit. Our return on equity further decreased to 17.6% for the year ended 31 December 2022, primarily due to (i) the decrease in net profit of approximately RMB4.65 million mainly due to the incurrence of [REDACTED] for the year, and (ii) the increase in total equity as a result of further accumulation of profit.

Return on total assets

Our return on total assets decreased from 14.7% for the year ended 31 December 2020 to 5.0% for the year ended 31 December 2021, primarily due to (i) the decrease in net profit of approximately RMB12.7 million mainly resulted from the incurrence of [REDACTED] for the year; (ii) the increase in trade receivable of approximately RMB15.9 million; (iii) the increase in property, plant and equipment of approximately RMB10.2 million; and (iv) the increase in cash and cash equivalents of approximately RMB46.1 million. Our return on total assets further decreased to 2.6% for the year ended 31 December 2022, primarily due to (a) the incurrence of [REDACTED] for the year; (b) the increase of trade receivable of approximately RMB17.5 million; (c) the increase in property, plant and equipment of approximately RMB1.7 million; and (d) the increase in cash and cash equivalents of approximately RMB31.0 million.

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Interest coverage

Our interest coverage decreased from approximately 16.0 times as at 31 December 2020 to approximately 7.4 times as at 31 December 2021 and further to approximately 4.2 times as at 31 December 2022, mainly due to the decrease in the profit before interest and tax. Our interest coverage increased to 9.1 times as at 30 June 2023 mainly because of the increase in the profit before interest and tax.

Current ratio

Our current ratio remained stable at 1.2 times, 1.1 times, 1.1 times and 1.0 times as at 31 December 2020, 2021 and 2022 and 30 June 2023.

Gearing Ratio

Our gearing ratio decreased from 1.8 times for the year ended 31 December 2020 to 1.1 times for the year ended 31 December 2021, primarily due to an increase of total equity as mentioned above. Our gearing ratio increased from 1.1 times for the year ended 31 December 2021 to 1.5 times for the year ended 31 December 2022, primarily due to an increase of approximately RMB24.9 million in interest-bearing bank and other borrowings. Our gearing ratio increased from 1.5 times as at 31 December 2022 to 1.9 times as at 30 June 2023, primarily due to the increase in the interest-bearing bank and other borrowings from RMB67.0 million as at 31 December 2022 to RMB102.1 million as at 30 June 2023.

Net debt to equity ratio

Our net debt to equity ratio was 1.7 times as at 31 December 2020. We had a net cash position for the two years ended 31 December 2022. Our net debt to equity ratio was 0.8 as at 30 June 2023, mainly due to the increase in the interest-bearing bank and other borrowings from RMB67.0 million as at 31 December 2022 to RMB102.1 million as at 30 June 2023.

LIQUIDITY AND CAPITAL RESOURCES

We had historically funded our working capital from capital contributions from the Shareholders, cash generated from our business operations and borrowings. We had cash and cash equivalents of RMB897,000, RMB47.0 million, RMB78.0 million and RMB61.3 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

Moving forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the [REDACTED] received from the [REDACTED]. We currently do not have any plans for material additional external financing.

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Taking into account of the financial resources available to us, including our cash and cash equivalents, our available banking facilities, and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and for the next 12 months from the date of this document.

The following table sets forth our cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Net cash generated from operating activities	22,962	68,279	16,554	(34,737)	(94,115)
Net cash generated from investing activities/(used in)	1,078	(5,350)	(7,389)	(5,572)	(33,488)
Net cash generated from/(used in) financing activities	(23,757)	(16,820)	21,815	4,861	110,868
Cash and cash equivalents at the beginning of the year	614	897	47,006	47,006	77,986
Cash and cash equivalent at the end of the year	<u>897</u>	<u>47,006</u>	<u>77,986</u>	<u>11,558</u>	<u>61,251</u>

Net Cash Generated from Operating Activities

Net cash generated from operating activities represents cash generated from operations plus interest received and minus income tax paid. Cash generated from operations primarily reflects (i) our profit and or loss before tax adjusted for non-cash and non-operating items, such as depreciation and amortisation, and (ii) the effects of changes in our working.

We recorded net cash generated from operating activities of RMB23.0 million, RMB68.3 million and RMB16.6 million as at 31 December 2020, 2021 and 2022 respectively and recorded net cash outflows of RMB34.7 million as at 30 June 2022 and RMB94.1 million as at 30 June 2023. In the meantime, we also enhance our cash flow position through continuous efforts to collect payments and receivables.

For the six months ended 30 June 2023, net cash used in operating activities amounted to RMB94.1 million, which was attributable to the profit before tax of RMB15.1 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of items of property, plant and equipment of RMB1.1 million, and right-of-used assets of RMB223,000, amortisation of intangible assets of RMB94,000, net impairment losses on financial assets of RMB2.0 million and finance cost

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of RMB1.9 million; and (ii) change in the working capital, which primarily comprised of (a) an increase in trade receivables of RMB67.0 million, resulting from the slower payment of a major client of our Group, Client K, whose slower payment was the client’s decision and had still been made within the agreed and customary credit term, (b) an increase in prepayments, other receivables and other assets of RMB20.0 million, resulting from suppliers’ request for our early payment to them per our commercial negotiation, (c) a decrease in trade payables of RMB24.7 million as a result of our Group’s and certain of our suppliers’ (mainly Supplier A) established practice to settle, during the first half of the subsequent year, any substantial trade payables incurred in the previous year, and (d) a decrease in other payables and accruals of RMB651,000. For details of our prepayment and settlement practice with our suppliers, please refer to the paragraph headed “Financial Information — Discussion of Certain Key Balance Sheet Items” in this section.

For the six months ended 30 June 2022, net cash used in operating activities amounted to RMB34.7 million, which was attributable to the profit before tax of RMB5.2 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of items of property, plant and equipment of RMB856,000, and right-of-used assets of RMB85,000, amortisation of intangible assets of RMB11,000, net impairment losses reversed on financial assets of RMB479,000 and finance cost of RMB1.1 million; and (ii) change in the working capital, which primarily comprised of an increase in trade receivables of RMB3.7 million, an increase in prepayments, other receivables and other assets of RMB1.3 million, a decrease in trade payables of RMB40.5 million and an increase in other payables and accruals of RMB55,000, as partially offset by an increase in other payables and accruals of RMB7.6 million.

Due to the abovementioned established practice, our Group usually has negative operating cash flow in the first half of the year, but such situation would not sustain when our clients gradually make payments to settle our receivables at a faster rate than us settling our trade payables in the second half of the year. To avoid negative net cash flow from operating activities and to decrease trade receivables and prepayments in the future, we will put in place more efforts in asking our clients to repay or settle in advance the relevant payments. In addition, we will enhance our internal credit risk management by, including but not limited to, (i) increasing our frequency in reminding our clients of due payment through various channels such as direct phone calls, WeChat messages, text messages and emails on a bi-weekly basis; (ii) closely monitoring the status of payment collection on a monthly basis; and (iii) appointing debt collectors or collection experts to take proactive measures to ask our clients to settle long-term uncollected receivables that are overdue for over six months to improve our cash flow position. We expect these measures would mitigate the issue of negative cash flow from operating activities in the forthcoming years.

For the year ended 31 December 2022, net cash generated from operating activities was RMB16.6 million, which was primarily attributable to our profit before tax of RMB7.7 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of items of property, plant and equipment of RMB1.7 million, and right-of-used assets of RMB177,000, amortisation of intangible assets of RMB78,000, net impairment losses on financial assets of RMB465,000 and finance cost of RMB2.4 million; and (ii) change in the working capital, which primarily comprised of (a) an increase in trade payables of RMB19.4 million, and an increase of other payables and

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accruals of RMB12.6 million, mainly attributable to our growth in credit sales in line with our business expansion, as partially offset by an increase in trade receivables of RMB18.0 million and an increase in prepayments, other receivables and other assets of RMB7.9 million.

For the year ended 31 December 2021, net cash generated from operating activities was RMB68.3 million, which was primarily attributable to our profit before tax of RMB14.7 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of items of property, plant and equipment of RMB965,000 and right-of-use assets of RMB403,000, amortisation of intangible assets of RMB13,000, net impairment losses reversed on financial assets of RMB114,000 and finance costs of RMB2.3 million; and (ii) change in working capital, which primarily comprised of an increase in trade payables of RMB71.6 million and increase in other payables and accruals of RMB2.2 million, primarily attributable to our growth in credit sales in line with our business expansion, as partially offset by an increase in trade receivables of RMB15.8 million, an increase in prepayments, other receivables and other assets in RMB4.8 million and an increase in contract liabilities in RMB2.1 million.

For the year ended 31 December 2020, net cash generated from operating activities was RMB23.0 million, which was primarily attributable to our profit before tax of RMB29.6 million, as adjusted by (i) non-cash items, which primarily comprised of depreciation of items of property, plant and equipment of RMB927,000 and right-of-use assets of RMB333,000, amortisation of intangible assets of RMB49,000, net impairment losses on financial assets of RMB160,000 and finance costs of RMB2.0 million; and (ii) change in working capital, which primarily comprised of an increase in trade receivables of RMB31.2 million as partially offset by an increase in trade payables of RMB19.1 million and an increase in contract liabilities of RMB2.0 million.

Net Cash Generated from/(used in) Investing Activities

Our cash used in investing activities consists primarily of purchases of items of property, plant and equipment, purchase of intangible assets, advance to and repayment from third parties, advance to and repayment of advance to related companies and disposal of property, plant and equipment.

For the six months ended 30 June 2023, our cash used in investing activities was RMB33.5 million, which was primarily attributable to (i) purchases of items of property, plant and equipment of RMB8.7 million, particularly the additions of equipment for the operation of our Edge Computing Services and the motor vehicles for the Company’s use and additions to other intangible assets of RMB173,000, (ii) advances of long term receivables of RMB76.5 million under a series of arrangements which were partially offset by RMB51.8 million, and the disposal of plant and equipment of RMB112,000. For details of the arrangements, please refer to the section headed “Business — Our Services — Edge Computing Services — Arrangement to develop Edge Computing Services” in this document.

For the six months ended 30 June 2022, our cash used in investing activities was RMB5.6 million, which was primarily attributable to purchases of items of property, plant and equipment of RMB6.5 million which was partially offset by the disposal of property, plant and equipment of RMB920,000.

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For the year ended 31 December 2022, net cash used in investing activities was RMB7.4 million, which was primarily attributable to purchases of items of property, plant and equipment of RMB8.3 million, as partially offset by the disposal of property, plant and equipment of RMB1.1 million.

For the year ended 31 December 2021, net cash used in investing activities was RMB5.4 million, which was primarily attributable to purchases of items of property, plant and equipment of RMB5.7 million, as partially offset by the repayment of advances to third parties of RMB290,000 from Mr. Sun and the purchase of items of property, plant and equipment of RMB5.7 million.

For the year ended 31 December 2020, net cash generated from investing activities was RMB1.1 million, which was primarily attributable to repayment of advances to third parties of RMB3 million as partially offset by purchases of items of property, plant and equipment of RMB1.8 million and advances to third parties of RMB290,000.

Net Cash Generated from Financing Activities

Our cash from financing activities consists primarily of capital contributions from shareholders, proceeds from borrowings and advances from related parties. Our cash generated from financing activities consists primarily of new bank loans, repayment of bank loans, interest paid, dividends paid to the then shareholders, payment for [REDACTED], advance from third parties, advance from related companies and repayment of advances from related companies.

For the six months ended 30 June 2023, our cash generated from financing activities was RMB110.9 million, which was primarily attributable to proceeds of new bank loans of RMB132.0 million and repayment from controlling shareholder of RMB84.3 million, as partially offset by repayment of bank loans of RMB97.0 million, dividends paid to the then shareholders of RMB30.0 million, interest paid of RMB1.7 million and payment of [REDACTED] of [REDACTED].

For the six months ended 30 June 2022, our cash generated from financing activities was RMB4.9 million, which was primarily attributable to proceeds of new bank loans of RMB47.0 million and advance from other related parties of RMB1.5 million, as partially offset by repayment of bank loans of RMB42.1 million, interest paid of RMB981,000 and payment of [REDACTED] of [REDACTED].

For the year ended 31 December 2022, net cash generated from financing activities was RMB21.8 million, which was primarily attributable to proceeds of new bank loans of RMB99.0 million and advance from other related parties of RMB1.5 million, as partially offset by repayment of bank loans of RMB74.0 million, interest paid of RMB2.4 million, payment of lease liabilities of RMB190,000, payment of [REDACTED] of [REDACTED] and repayment of advances from related other parties of RMB1.5 million.

For the year ended 31 December 2021, net cash used in financing activities was RMB16.8 million, which was primarily attributable to repayment of bank loans of RMB67.5 million, advances to controlling shareholder of RMB22.0 million, payment of [REDACTED] of [REDACTED],

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interest paid of RMB2.2 million, dividends paid to the then shareholders of RMB2.0 million and repayment of advances from third parties of RMB2.0 million, as partially offset by the proceeds of new bank loans of RMB62.0 million and advances from controlling shareholder of RMB22.2 million.

For the year ended 31 December 2020, net cash used in financing activities was RMB23.8 million, which was primarily attributable to repayment of bank loans of RMB29.9 million, interest paid of RMB1.9 million, dividends paid to the then shareholders of RMB10.0 million and advances to controlling shareholder of RMB107.8 million, as partially offset by new bank loans of RMB54.0 million and advances from controlling shareholder of RMB77.5 million.

INDEBTEDNESS

The following table sets forth the components of our indebtedness as at the dates indicated. Save as disclosed below and apart from intra-group liabilities, we did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants or other material contingent liabilities as at the dates indicated. Our Group has an unutilised bank loan facility of RMB111.0 million as at the Latest Practicable Date.

	As at 31 December			As at 30 June	As at 31 October
	2020	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Amounts due to related parties	2,247	—	—	—	—
Interest-bearing bank and other borrowings	47,549	42,083	67,013	102,101	116,743
Lease liabilities	618	—	192	1,419	1,452
Total	50,414	42,083	67,205	103,520	118,195

Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there were no material covenants related to our outstanding debt that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 October 2023 and up to the Latest Practicable Date. Our Directors confirmed that as at the Latest Practicable Date, we did not have any immediate plan for additional material external debt financing.

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Amounts due to related parties

The amount due to related parties amounted to RMB2.2 million, nil, nil, nil and nil as at 31 December 2020, 2021 and 2022, 30 June 2023 and 31 October 2023, respectively. For details of our amounts due to related parties, please refer to the paragraph headed “Financial Information — Discussion of Certain Key Balance Sheet Items — Current assets — Amount due to related parties” of this section.

Interest-bearing bank and other borrowings

The interest-bearing bank and other borrowings amounted to RMB47.5 million, RMB42.1 million, RMB67.0 million, RMB102.1 million and RMB116.7 million as at 31 December 2020, 2021 and 2022, 30 June 2023 and 31 October 2023, respectively. The increase in interest-bearing bank and other borrowings after the Track Record Period was mainly due to our Group’s need for the replenishment of working capital. For details of our borrowings, please refer to the paragraph headed “Financial Information — Discussion of Certain Key Balance Sheet Items — Current liabilities — Interest-bearing bank and other borrowings” of this section.

Lease liabilities

The lease liabilities amounted to RMB618,000, nil, RMB192,000, RMB1.4 million and RMB1.5 million as at 31 December 2020, 2021 and 2022, 30 June 2023 and 31 October 2023, respectively. The increase in lease liabilities after the Track Record Period was mainly due to the new tenancy in our Hangzhou office. For details of our lease liabilities, please refer to the paragraph headed “Financial Information — Discussion of Certain Key Balance Sheet Items — Current liabilities — Lease liabilities” of this section.

CONTINGENT LIABILITIES

As at 31 December 2020, 2021 and 2022, 30 June 2023 and 31 October 2023, we did not have any material contingent liabilities.

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CAPITAL EXPENDITURES

The following table sets forth our capital expenditure, primarily related to the cash paid for the purchase of property, plant and equipment and intangible assets, for the periods indicated:

	For the year ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchase of property, plant and equipment	1,762	5,677	8,269	6,492	8,735
Purchase of intangible assets	17	31	234	—	173
Total	1,779	5,708	8,503	6,492	8,908

Our Group incurred capital expenditures of approximately RMB1.8 million, RMB5.7 million, RMB8.5 million and RMB8.9 million for the three years ended 31 December 2022 and the six months ended 30 June 2023, respectively. The capital expenditure on the purchase of property, plant and equipment for the three years ended 31 December 2022 and the six months ended 30 June 2023 amounted to RMB1.8 million, RMB5.7 million, RMB8.3 million and RMB8.7 million, respectively. The capital expenditure on the purchase of intangible assets for the three years ended 31 December 2022 and the six months ended 30 June 2023 amounted to RMB17,000, RMB31,000, RMB234,000 and RMB173,000, respectively. Our capital expenditure was funded by our internal resources.

During the Track Record Period and up to 30 June 2023, we had not had any material capital commitments.

CONTRACTUAL OBLIGATIONS

We did not have any material capital commitments or operating lease commitments as at 31 December 2020, 2021 and 2022 and 30 June 2023.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions in relation to (i) key management compensation; (ii) other payable due to related parties which are non-trade in nature, unsecured, interest-free and repayable on demand; (iii) financial guarantees provided by shareholders of our Company in respect of our bank borrowings; and (iv) advances to shareholders of our Company. Save as the above related party transactions disclosed in Note 30 Related party transactions as set out in the Accountants’ Report in Appendix I to this document, we have not entered into any other transactions with our related parties.

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For details about our related party transactions, please refer to note 30 to the Accountants’ Report in Appendix I to this document.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on arm’s length basis, and they did not distort our results of operations or make our historical results non-exhaustive of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder’s equity or that are not reflected in our consolidated financial statements. Further we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

FINANCIAL RISKS MANAGEMENT

The major financial risks arising from our Group’s normal course of business include market risk, credit risk and liquidity risk. For details, please refer to note 33 to the Accountants’ Report in Appendix I to this document.

DIVIDENDS

As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account of factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

We declared dividends of RMB10.0 million, RMB2.0 million, nil and RMB30.0 million to our then shareholders for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. As at the Latest Practicable Date, we settled all payments. We do not currently have a pre-determined dividend payout ratio. Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio.

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WORKING CAPITAL CONFIRMATION

We had positive net cash flows from operation of RMB23.0 million, RMB68.3 million and RMB16.6 million, respectively, for the three years ended 31 December 2022 and have a negative cash flows from operation of RMB94.1 million for the six months ended 30 June 2023. We had cash and cash equivalents of RMB61.3 million as at 30 June 2023. Our Directors confirm that we had no material default in payment of trade and non-trade payables and borrowings during the Track Record Period and up to the date of this document.

Taking into account of the financial resources available to us, including our cash and cash equivalents, our available banking facilities, and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and for the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

As at 30 June 2023, our Company’s distributable reserves amounted to RMB12.3 million.

[REDACTED]

Based on the mid-point [REDACTED] of HK\$[REDACTED] and assuming [REDACTED] is not exercised, the total estimated [REDACTED] in relation to the [REDACTED] is HK\$[REDACTED] million. Among the total [REDACTED], approximately HK\$[REDACTED] million is expected to be borne by us and approximately HK\$[REDACTED] million is expected to be borne by the [REDACTED]. [REDACTED] expected to be borne by us include the estimated [REDACTED]-related expenses of HK\$[REDACTED] million and non-[REDACTED]-related expenses of HK\$[REDACTED] million, consisting of (i) estimated fees and expenses of legal adviser(s) and Reporting Accountants of HK\$[REDACTED] million and (ii) estimated other fees and expenses of HK\$[REDACTED] million. During the Track Record Period, [REDACTED] of RMB[REDACTED] million were incurred by us, of which RMB[REDACTED] million were charged to our consolidated statements of comprehensive income and RMB[REDACTED] million were recognised to our consolidated statements of financial position. We estimate that we will further incur [REDACTED] of RMB[REDACTED] million of which RMB[REDACTED] million will be charged to our consolidated statements of comprehensive income and RMB[REDACTED] million, which mainly includes [REDACTED], is expected to be accounted for as a deduction from equity upon the completion of [REDACTED] and the [REDACTED].

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

For details on unaudited [REDACTED] statement of adjusted net tangible assets, please refer to the section headed “Unaudited [REDACTED] Financial Information” in Appendix II to this document.

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NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2023, which is the end date of the periods reported on the Accountants’ Report in Appendix I to this document, and there is no event since 30 June 2023 that would materially affect the information as set out in the Accountants’ Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.