

## RISK FACTORS

*You should carefully consider all of the information set out in this document before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the [REDACTED]. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### **A slowdown in the demand for our IDC Solution Services could have a material adverse effect on us.**

Adverse developments in the IDC solution service market, in the industries in which our clients operate, or in demand for cloud computing could services lead to a decrease in the demand for our IDC Solution Services, which could have a material adverse effect on us. We face risks including:

- a decline in the technology industry, such as a decrease in the use of mobile or web-based commerce, business layoffs or downsizing, relocation of businesses, increased costs of complying with existing or new government regulations and other factors;
- a reduction in cloud adoption or a slowdown in the growth of the internet generally as a medium for commerce and communication and the use of cloud-based platforms and services in particular; and
- a downturn in the market for data centre capacity generally, which could be caused by an oversupply of or reduced demand for space, and a downturn in cloud-based data centre demand in particular.

To the extent that any of these or other adverse conditions occur, they are likely to impact market demand and pricing for our services.

#### **Any inability to manage the growth of our operations could disrupt our business and reduce our profitability.**

We have experienced continual growth in recent years. Our revenue grew from RMB276.1 million for the year ended 31 December 2020 to RMB464.3 million for the year ended 31 December 2021, representing an increase of 68.2%, and increased further to RMB548.8 million for the year ended 31 December 2021, representing an increase of 18.2%.

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Our operations have also expanded in recent years through increases in the number and size of the data centre facilities we cover and manage, which we expect will continue to grow. Our rapid growth has placed, and will continue to place, significant demands on our management and our administrative, operational, and financial systems. Continued expansion increases the challenges we face in:

- managing a large and growing client base with increasingly diverse requirements;
- expanding our service portfolio to cover a wider range of services, including Edge Computing Services;
- creating and capitalising on economies of scale;
- being exposed to protectionist or national security policies that restrict our ability to invest in or acquire companies or develop, import or export certain technologies;
- obtaining additional capital to meet our future capital needs;
- recruiting, training and retaining a sufficient number of skilled technical, sales and management personnel;
- maintaining effective oversight over personnel and multiple data centre locations;
- coordinating work among sites and project teams; and
- developing and improving our internal systems, particularly for managing our continually expanding business operations.

If we fail to manage the growth of our operations effectively, our businesses and prospects may be materially and adversely affected.

**Our ability to provide IDC Solution Services depends on the major telecommunications carriers in China providing sufficient network services to our clients in the data centre facilities that we operate on commercially acceptable terms.**

During the Track Record Period, Supplier A was one of our major suppliers and one of our clients. To the best knowledge and belief of our Directors, Supplier A is an Independent Third Party.

During the Track Record Period, our Group sourced data centre resources, namely server rack space and bandwidth, from Supplier A. For the years ended 31 December 2020, 2021 and 2022, Supplier A charged us RMB191.7 million, RMB271.6 million and RMB264.9 million, which accounted for 86.3%, 66.6% and 55.2% of our total cost of sales, respectively. For details of Supplier A, please refer to the paragraph headed “Business — Our Suppliers” in this document.

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Our ability to provide IDC Solution Services depends on the major telecommunications carriers in China providing sufficient network connectivity and capacity which enable our clients to transfer data to and from equipment located in the data centre facilities that we operate. Furthermore, given the limited competition among basic service providers in the telecommunications market in China, we depend on the dominant carrier in each location to provide such services to our clients on commercially acceptable terms. Although we believe we have maintained good relationships with them in the past, there can be no assurance that they will continue to provide the network services that our clients require on commercially acceptable terms at each of the data centres where we operate, if at all. In addition, if any of them increases the price of their network services, it would have a negative impact on the overall cost-effectiveness of data centre services in China, which could cause our clients’ demand for our services to decline and would materially and adversely affect our business and results of operations.

**If we are not successful in expanding our service offerings, we may not achieve our financial goals and our results of operations may be adversely affected.**

We have been expanding, and plan to continue to expand, the nature and scope of our service offerings, particularly into the area of Edge Computing Services. The success of our expanded service offerings depends, in part, upon demand for such services by new and existing clients and our ability to meet their demand in a cost-effective manner. We may face a number of challenges in expanding our service offerings, including:

- acquiring or developing the necessary expertise;
- maintaining high-quality control and process execution standards;
- maintaining productivity levels and implementing necessary process improvements;
- controlling costs; and
- successfully attracting existing and new clients for new services we develop.

A failure by us to effectively manage the growth of our service portfolio could damage our reputation, cause us to lose business and adversely affect our results of operations. In addition, because content delivery network operation may require significant upfront investment, we expect that continued expansion into these services will reduce our profit margins. In the event that we are unable to successfully grow our service portfolio, we could lose our competitive edge in providing our existing colocation and managed services, since significant time and resources that are devoted to such growth could have been utilised instead to improve and expand our existing IDC Solution Services.

In the future, advances in technology, increases in traffic and storage, and new client requirements may require us to change our capacity or expand our capacity. Scaling and adapting our capacity is likely to be complex and require additional technical expertise and data centre resources. If we are required to make any changes to our infrastructure, we may incur substantial

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costs and experience delays or interruptions in our service. These delays or interruptions may cause clients to become dissatisfied with our service and move to competing providers of online publishing or distribution services. Our failure to accommodate increased traffic and storage, increased costs, inefficiencies or failures to adapt to new technologies or client requirements and the associated adjustments to our infrastructure could harm our business, financial condition and results of operations.

**If we fail to adopt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, and changing client needs, requirements, or preferences, our products may become less competitive.**

The edge computing service market in which we compete is relatively new and subject to rapid technological change, evolving industry standards and regulatory changes, as well as changing client needs, requirements, and preferences. The success of our business will depend on our ability to adapt and respond effectively to these changes on a timely basis. If we are unable to develop and offer new services or products that satisfy our clients and provide enhancements, new features, and capabilities to our services that keep pace with rapid technological and industry range, our revenue and operating results could be adversely affected. If new technologies emerge that enable our competitors to deliver competitive products and services at lower prices, more efficiently, more conveniently, or more securely, such technologies could adversely impact on our ability to compete.

**Any significant or prolonged failure in the data centre facilities covered in our operation or services we provide would lead to significant costs and disruptions and would reduce our net revenue, harm our business reputation and have a material adverse effect on our results of operation.**

Our managed data centre facilities are subject to failure. Any significant or prolonged failure in our managed data centre facility or services that we provide, including a breakdown in critical plant, equipment or services, such as the cooling equipment, generators, backup batteries, routers, switches, or other equipment, power supplies, or network connectivity, whether or not within our control, could result in service interruptions and data losses for our clients as well as equipment damage, which could significantly disrupt the normal business operations of our clients and harm our reputation and reduce our net revenue. Especially, as we are not data centre operators and do not own or operate any data centres, the conditions and operation of data centres are largely out of our control. Any failure or downtime in one of the data centre facilities that we manage could affect many of our clients. The total destruction or severe impairment of any of the data centre facilities we operate could result in significant downtime of our services and catastrophic loss of client data. Since our ability to attract and retain clients depends on our ability to provide highly reliable service, even minor interruptions in our service could harm our reputation and cause us to incur financial penalties. The services we provide are subject to failures resulting from numerous factors, including but not limited to power loss; equipment failure; human error or accidents; theft, sabotage and vandalism; failure by us or our suppliers to provide adequate service or maintenance to our equipment; network connectivity downtime and fiber cuts; security breaches to infrastructure;

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physical, electronic and cyber security breaches; fires and fire hazards, earthquake, hurricane, tornado, flood and other natural disasters; extreme temperatures; water damage; public health emergencies; and terrorism.

We and our suppliers may in the future experience, interruptions in service due to power outages or other technical failures or for reasons outside of our control, including a service interruption that causes system downtime to certain our clients. These interruptions in service, regardless of whether they result in breaches of the service level agreements we have with clients, may negatively affect our relationships with clients, including resulting in clients terminating their agreements with us or seeking damages from us or other compensatory actions. In response to such interruptions in service, industry regulators have taken, and may in the future take, various regulatory actions, including notifications or citations to our clients, over which they have oversight. Such regulatory actions with respect to our clients could negatively impact our relationships with such clients, lead to audits of our services, inspections of our facilities, place restrictions or prohibitions upon the ability of such institutions to use our services, and thereby negatively affect our business operations and results of operations. We have taken and will continue to take steps to implement rigorous operational procedures for maintenance programs to manage risk. However, we cannot assure you that such interruptions in service will not occur in the future, or that such incidents will not result in the loss of clients and revenue, our paying compensation to clients, reputational damage to us, penalties or fines against us, and would not have a material and adverse effect on our business and results of operations. Service interruptions will continue to be a significant risk for us and could affect our reputation, damage our relationships with clients and materially and adversely affect our business.

Our data centre providers carry out on-site security service relating to our managed data centre facilities on 365/24/7 basis. Our data centre resource suppliers may fail to provide satisfactory security services, resulting in inappropriate access to our facilities or IT faults which, though non-critical, may cause poor service quality to clients.

As our services are critical to many of our clients’ business operations, any significant disruption in our services could result in losing profits or other indirect or consequential damages to our clients. Although our client agreements typically contain provisions attempting to specify the formula of our liability for breach of the agreement, there can be no assurance that a court would enforce any contractual limitations on our liability in the event that one of our clients brings a lawsuit against us as the result of a service interruption that they may ascribe to us. The outcome of any such lawsuit would depend on the specific facts of the case and any legal and policy considerations that we may not be able to mitigate. In such cases, we would be liable for substantial damage awards. Since we do not carry liability insurance coverage, such damage awards could seriously impair our financial condition.

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

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

**Our success depends to a substantial degree upon our senior management, including Mr. Sun, and key personnel, and our business operations may be negatively affected if we fail to attract and retain highly competent senior management.**

We depend to a significant degree on the continuous service of Mr. Sun, our founder, chairman and chief executive officer, and our experienced senior management team and other key personnel such as project managers and other middle management. If one or more members of our senior management team or key personnel resigns, it could disrupt our business operations and create uncertainty as we search for and integrate a replacement. If any member of our senior management leaves us to join a competitor or to form a competing company, any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. Additionally, there could be unauthorised disclosure or use of our technical knowledge, practices or procedures by such personnel. We have entered into employment agreements with our senior management and key personnel. We have also entered into confidentiality agreements with our personnel which contain nondisclosure covenants that survive indefinitely as to our trade secrets. Additionally, pursuant to these confidentiality agreements, any inventions and creations of our employees relating to the Company’s business that are completed within twelve months after termination of employment shall be transferred to the Company without payment of consideration, and the employees shall assist the Company in applying for corresponding patents or other rights. However, these employment agreements do not ensure the continued service of these senior management and key personnel, and we may not be

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able to enforce the confidentiality agreements we have with our personnel. In addition, we do not maintain key man life insurance for any of the senior members of our management team or our key personnel.

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

We face various risks in connection with our business and may lack adequate insurance coverage or have no relevant insurance coverage. Further, insurance companies in China do not currently offer as extensive an array of insurance products as insurance companies in other more developed economies. As at the Latest Practicable Date, we had not had any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring against these risks, and the difficulties associated with acquiring such insurances on commercially reasonable terms render these insurances, is impractical for our business and purposes. However, any uninsured business disruptions may have an adverse effect on our business and results of operations. We also make social insurance and housing provident fund contributions for our employees. During the Track Record Period, our certain PRC subsidiaries had not contributed towards a social insurance and housing provident fund based on employees’ average monthly salary of the previous year. If the relevant authorities determine that we have to make supplemental social insurance and housing provident fund contributions, and that we are subject to administrative fines, our business and financial condition and results of operations may be adversely affected.

**We face risks related to natural disasters and health epidemics in China where we operate which could significantly disrupt our operations.**

We face risks related to natural disasters and health epidemics. Our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to operate our games and provide services. Our business could also be adversely affected by the effects of Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, SARS, COVID-19 or other epidemics, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the PRC economy in general, the general consumer spending sentiment and the mobile sports game industry. Moreover, due to the outbreak of the COVID-19 pandemic, there has been suspension of sports seasons.

In response to the COVID-19 outbreak in China, the PRC government has introduced a series of measures. Business activities in China have also been temporarily disrupted. We cannot guarantee that the COVID-19 outbreak will not worsen or the suspension of business activities in China will not continue, which may, in turn, delay or negatively affect our business and those of our suppliers and other business partners. As China relaxes its “zero-COVID” policy, there has



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been a significant surge of COVID-19 cases in China. The rising number of confirmed COVID-19 cases across China may further have a negative impact on our business operations and financial position.

In addition, our business, financial condition and results of operations could be adversely affected to the extent that any health epidemic harms the national economy in general. Our headquarters are located in Wuxi, where most of our Directors, senior management and employees currently reside. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Wuxi or other cities in China where our other offices are located, our operation may experience material disruptions, such as temporary closure of our offices and suspension of service, which may materially and adversely affect our business, financial condition and results of operations.

**Our liquidity and financial condition may be materially and adversely affected if we fail to collect trade receivables from our clients in a timely manner, or at all.**

As at 31 December 2022, our trade receivables were RMB115.1 million, and the allowance for impairment was RMB2.2 million. Our trade receivable turnover days were 70.7 for the year ended 31 December 2022. We recorded impairment losses on trade receivable of RMB292,000 and RMB484,000 for the years ended 31 December 2020 and 2022, respectively, and impairment losses reversed on trade receivable of RMB110,000 for the year ended 31 December 2021. As our business continues to scale, our trade receivable balance may continue to grow, which may increase our risks for uncollectible receivables. We generally do not require collateral or other security from our clients and we cannot assure you that our clients will consistently make timely and full payments to us. Although we believe that our loss allowance for trade receivable is currently adequate, our liquidity and financial condition may be materially and adversely affected if we fail to collect trade receivable from clients in a timely manner, or at all.

**Our agreements for third-party data centres could be terminated early and we may not be able to renew our existing agreements on commercially acceptable terms, which could materially and adversely affect our operations.**

Our IDC Solution Services are operated in third-party data centres that we procure from state-owned telecommunication carriers. Our agreements with third parties are typically from one year to three years. Under some of such agreements, we have the right to renew the agreements subject to the mutual agreement with third parties. Some of such agreements allow the third parties to terminate the agreements early, subject to a notification period requirement and the payment of a pre-determined termination fee, which in some cases may not be sufficient to cover any direct and indirect losses we might incur as a result. Although historically we have successfully renewed all agreements we wanted to renew, and we do not believe that any of our agreements will be terminated early in the future, there can be no assurance that the counterparties will not terminate any of our agreements prior to its expiration date. We plan to renew our existing agreements with third parties upon expiration. However, we may not be able to renew these agreements on commercially acceptable terms, if at all, or the space in data centres that we procure may not be adequate for us to relocate such operations, and we may experience an increase in our prices under



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such agreements. Any adverse change to our ability to exert operational control over any of the data centre facilities we operate could have a material adverse effect on our ability to operate these data centre facilities at the standards required for us to meet our service level commitments to our clients. For details, please refer to the paragraph headed “Business — Our Clients — Colocation and infrastructure management service agreement” in this document.

**Our net revenue is highly dependent on a limited number of clients, and the loss of, or any significant decrease in business from, any one or more of our major clients could adversely affect our financial condition and results of operations.**

We consider our clients to be the end users of our services. We may enter into agreements directly with our clients or provide services to our clients through agreements with intermediate contracting parties.

We have in the past derived, and believe that we will continue to derive, a significant portion of our net revenue from a limited number of clients. We had two clients that generated 26.4% and 24.7% of our total net revenue, respectively, for the year ended 31 December 2020. We had three clients that generated 28.7%, 16.7% and 12.2% of our total net revenue, respectively, for the year ended 31 December 2021. We had five clients that generated 20.5%, 18.2%, 15.0%, 13.0% and 10.8% of our total net revenue, respectively, for the year ended 31 December 2022. No other client accounted for 10% or more of our total net revenue during those periods. We expect our net revenue will continue to be highly dependent on a limited number of clients who account for a large percentage of our total area committed.

There are a number of factors that could cause us to lose major clients. Because many of our agreements involve services that are mission-critical to our clients, any failure by us to meet a client’s expectations could result in cancellation or non-renewal of the agreement. Our service agreements usually allow our clients to terminate their agreements with us before the end of the contract period under certain specified circumstances, including our failure to deliver services as required under such agreements, and in some cases without cause as long as sufficient notice is given. In addition, our clients may decide to reduce spending on our services due to a challenging economic environment or other factors, both internal and external, relating to their business such as corporate restructuring or changing their outsourcing strategy by moving more facilities in-house or outsourcing to other service providers. Furthermore, our clients, some of whom have experienced rapid changes in their business, substantial price competition and pressures on their profitability, may demand price reductions or reduce the scope of services to be provided by us, any of which could reduce our profitability. In addition, our reliance on any individual client for a significant portion of our net revenue may give that client a degree of pricing leverage against us when negotiating agreements and terms of services with us.

The loss of any of our major clients, or a significant decrease in the extent of the services that they outsource to us or the price at which we sell our services to them, could materially and adversely affect our financial condition and results of operations.

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**If we are unable to meet our service level commitments, our reputation and results of operation could suffer.**

Most of our client agreements provide that we maintain certain service level commitments to our clients. If we fail to meet our service level commitments, we may be contractually obligated to pay the affected client a financial penalty, which varies by agreement, and the client may in some cases be able to terminate its agreement. Although we have not had to pay any material financial penalties for failing to meet our service level commitments in the past, there is no assurance that we will be able to meet all of our service level commitments in the future and that no material financial penalties may be imposed. In addition, if such a failure were to occur, there can be no assurance that our clients will not seek other legal remedies that may be available to them, including:

- requiring us to provide free services;
- seeking damages for losses incurred; and
- cancelling or electing not to renew their agreements.

Any of these events could materially increase our expenses or reduce our net revenue, which would have a material adverse effect on our reputation and results of operations. Our failure to meet our commitments could also result in substantial client dissatisfaction or loss. As a result of such client loss and other potential liabilities, our net revenue and results of operations could be materially and adversely affected.

**Revenue from our client base may decline if our clients or potential clients develop their own data centres or their own edge computing infrastructure.**

Some of our clients may develop their own data centre facilities. Other clients with their own existing data centres may choose to expand their data centre operations in the future. In the event that any of our key clients were to develop or expand their data centres, we may lose business or face pressure as to the pricing of our services. Although we believe that the trend is for companies in China to outsource more of their data centre facilities and operations to colocation data centre service providers, there can be no assurance that this trend will continue. In addition, if we fail to offer Edge Computing Services that are cost-competitive and operationally advantageous as compared with services provided in-house by our clients, we may lose clients or fail to attract new clients. If we lose a client, there is no assurance that we would be able to replace that client at the same or a higher rate, or at all, and our business and results of operations would suffer.

**If we do not succeed in attracting new clients for our services and/or growing revenue from existing clients, we may not achieve our revenue growth goals.**

We have been expanding our client base to cover a range of industry verticals, particularly cloud service providers and other internet-based businesses. Our ability to attract new clients, as well as our ability to grow revenue from our existing clients, depends on a number of factors, including our ability to offer high-quality services at competitive prices, the strength of our

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competitors and the capabilities of our marketing and sales teams to attract new clients. If we fail to attract new clients, we may not be able to grow our net revenue as quickly as we anticipate or at all.

As our client base grows and diversifies into other industries, we may be unable to provide clients with services that meet the specific demand of such clients or their industries, or with quality client support, which could result in client dissatisfaction, decreased overall demand for our services and loss of expected revenue. In addition, our inability to meet client service expectations may damage our reputation and could consequently limit our ability to retain existing clients and attract new clients, which would adversely affect our ability to generate revenue and negatively impact our results of operations.

**Our clients operate in a limited number of industries, particularly in the cloud services and internet. Factors that adversely affect these industries or information technology spending in these industries may adversely affect our business.**

Our clients operate in a limited number of industries, particularly in the cloud computing service and Internet service industries. For the years ended 31 December 2020, 2021 and 2022, revenue from clients for our IDC Solution Services accounted for 90.3%, 94.2% and 98.2% of our total revenue, respectively, and revenue from clients for our ICT Services and Other Services accounted for 9.7%, 5.8% and 0.9%, respectively. Our business and growth depend on continued demand for our services from our current and potential clients in the cloud computing service and Internet service industries. Demand for our services, and technology services in general, in any particular industry could be affected by multiple factors outside of our control, including a decrease in growth or growth prospects of the industry, a slowdown or reversal of the trend to outsource information technology operations, or consolidation in the industry. Any significant decrease in demand for our services by clients in these industries, or other industries from which we derive significant net revenue in the future, may reduce the demand for our services.

If we do not maintain good relationships with cloud computing service and Internet service providers, our business could be negatively affected. If these cloud service providers fail to perform as required under our agreements for any reason or suffer service level interruptions or other performance issues, or if our clients are less satisfied than expected with the services provided or results obtained, we may not realise the anticipated benefits of these relationships.

Since our agreements with key cloud computing service and Internet service providers in China are non-exclusive, these companies may decide in the future to partner with more of our competitors, develop in-house data centre capabilities or terminate their agreements with us, any of which could adversely and materially affect our business expansion plan and expected growth.

**We may not be able to compete effectively against our current and future competitors.**

We offer a broad range of data centre services and, as a result, we may compete with a wide range of data centre service providers for some or all of the services we offer. Policies recently promoted by the PRC government concerning the concept of “new infrastructure” may encourage

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and result in a new wave of investment in, among other things, large-scale data centres, Artificial Intelligence and industrial internet at all levels of the economy. Accordingly, there may be an increase in the number of companies engaging in the data centre services business due to the numerous opportunities presented by such policies, which may result in increased competition in our industry. We face competition from the state-owned telecommunications carriers, as well as other domestic and international carrier-neutral data centre service providers. Our current and future competitors may vary by size, service offerings and geographic presence. For details, please refer to the paragraph headed “Business — Competition” in this document. Competition is primarily centered on reputation and track record, quality and availability of data centre capacity, quality of service, technical expertise, security, reliability, functionality, breadth and depth of services offered, geographic coverage, financial strength and price. Some of our current and future competitors may have greater brand recognition, marketing, technical and financial resources than we do. As a result, some of our competitors may be able to:

- bundle colocation services with other services or equipment they provide at reduced prices;
- develop superior products or services, gain greater market acceptance, and expand their service offerings more efficiently or rapidly;
- adapt to new or emerging technologies and changes in client requirements more quickly;
- take advantage of acquisition and other opportunities more readily; and
- adopt more aggressive pricing policies and devote greater resources to the promotion, marketing and sales of their services.

We operate in a competitive market, and we face pricing pressure for our services. Prices for our services are affected by a variety of factors, including supply and demand conditions and pricing pressures from our competitors. With respect to our IDC Solution Services, our competitors may offer such services at rates below current market rates or below the rates we currently charge our clients. We may be required to lower our prices to remain competitive, which may decrease our margins and adversely affect our business prospects, financial condition and results of operations.

In addition, in relation to our Edge Computing Services, one or more third parties might develop improvements to current peer-to-peer technology, which is a technology that relies upon the computing power and bandwidth of its participants, such that this technological approach is better able to deliver content in a way that is competitive to our Edge Computing Services, or even that makes Edge Computing Services obsolete. We may not anticipate such developments and may be unable to adequately compete with these potential solutions. In addition, our clients’ business models may change in ways that we do not anticipate and these changes could reduce or eliminate clients’ needs for our Edge Computing Services. If this occurred, we could lose clients or potential clients, and our business and financial results would suffer. As a result of these or similar potential developments, in the future it is possible that competitive dynamics in our market may require us to reduce our prices, which could harm our revenue, gross margin and operating results.

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**We may be regarded as being non-compliant with the regulations on VATS due to the lack of ICP Licence for which penalties may be assessed that may materially and adversely affect our business, financial condition, growth strategies and prospects.**

The laws and regulations regarding VATS and licensing in the PRC are relatively new and are still evolving, and their interpretation and enforcement involve significant uncertainties. Investment activities in the PRC by foreign investors are principally governed by the Negative List (2021). A foreign investor is prohibited to invest in any of the prohibited fields specified in the Negative List (2021). According to Negative List (2021), foreign investors are not allowed to hold 50% interests or more in VATS (other than e-commerce, domestic multi-party communications, store-and-forward and call centre), including internet data centre. Foreign direct investment in telecommunications companies in the PRC is regulated by the Regulations for the Administrative Regulations on Foreign-Invested Telecommunications Enterprises, which was amended on 29 March 2022. According to such regulations, foreign-invested telecommunications enterprises in the PRC, and foreign investors are not allowed to hold more than 50% of the interests in such enterprise unless it is otherwise provided by the State. The qualification requirements that a foreign investor who invests in a VATS in the PRC must possess prior experience in operating VATS and a proven track record of business operations (the “**Qualification Requirement**”) are removed by the FITE Regulations. For details, please refer to the paragraph headed “Regulatory Overview — Regulations on Company and Foreign Investment Restrictions” in this document. Under the Telecommunications Regulations, a telecommunications service provider is required to obtain an operating licence prior to its commencement of operations. The Administrative Measures for Telecommunications Business Operating Licence, which came effect on 10 April 2009, and was amended on 3 July 2017 (effective on 1 September 2017), set forth the types of licences required for the provision of telecommunications services in China and the procedures and requirements for obtaining such licences.

Our Group obtained a cross-regional ICP Licence, the scope of which now includes fixed network domestic data transmission services, IDC services, Edge Computing Services and Internet access services. In order to adapt to the new regulatory requirements, we incorporated a domestic company wholly owned by Cloud Factory HK, a limited liability company established in Hong Kong. As part of the VIE structure, Wuxi Lingjingyun entered into Contractual Arrangements with our Group.

However, if the MIIT regards us as existing in a state of non-compliance, penalties could potentially be assessed against us. It is possible that the amount of any such penalties may be several times more than the net revenue generated from these services. Our business, financial condition, expected growth and prospects would be materially and adversely affected if such penalties were to be assessed upon us. It is also possible that the PRC government may prohibit a non-compliant entity from continuing to carry on its business, which would materially and adversely affect our results of operations, expected growth and prospects.

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**We may fail to obtain, maintain and update licences or permits necessary to conduct our operations in the PRC, and our business may be materially and adversely affected as a result of any changes in the laws and regulations governing the VATS industry in the PRC.**

There can be no assurance that we will be able to maintain our existing licences or permits necessary to provide our current IDC Solution Services in the PRC, renew any of them when their current term expires, or update existing licences or obtain additional licences necessary for our future business expansion. The failure to obtain, retain, renew or update any licence or permit generally, and our ICP Licences in particular, could materially and adversely disrupt our business and future expansion plans.

In addition, if future PRC laws or regulations governing the VATS industry require that we obtain additional licences or permits or update existing licences in order to continue to provide our IDC Solution Services, there can be no assurance that we would be able to obtain such licences or permits or update existing licences in a timely manner, or at all. If any of these situations occur, our business, financial condition and prospects would be materially and adversely affected.

**The data centre resource suppliers from whom we procure data centre capacity on a wholesale basis may fail to maintain licences and permits necessary to conduct their operations in the PRC, and our business may be materially and adversely affected.**

As at 31 December 2021, we managed the data centre resources that we procure on a wholesale basis from other data centre resource providers. There can be no assurance that the wholesale data centre providers from whom we procure will be able to maintain their existing licences or permits necessary to provide our current IDC Solution Services and Edge Computing Services in the PRC or renew any of them when their current term expires. Their failure to obtain, retain or renew any licence or permit generally, and their ICP Licences in particular, could materially and adversely disrupt our business.

In addition, if any future PRC laws or regulations governing the VATS industry require that the wholesale data centre providers from whom we procure obtain additional licences or permits in order to continue to provide their data centre resources, there can be no assurance that they would be able to obtain such licences or permits in a timely manner, or at all. If any of these situations occur, our business, financial condition and prospects could be materially and adversely affected.

We cannot assure you that we will be able to relocate such operations to suitable alternative premises, and any such relocation may result in disruption to our business operations and thereby result in loss of earnings. We may also need to incur additional costs for the relocation of our operation. There is also no assurance that we will be able to effectively mitigate the possible adverse effects that may be caused by such disruption, loss or costs. Any of such disruption, loss or costs could materially and adversely affect our financial condition and results of operations.



## RISK FACTORS

**We have limited ability to protect our intellectual property rights, and unauthorised parties may infringe upon or misappropriate our intellectual property.**

Our success depends in part upon our proprietary intellectual property rights, including certain methodologies, practices, tools and technical expertise we utilise in designing, developing, implementing and maintaining applications and processes used in providing our services. We rely on a combination of copyright, trademark, trade secrets and other intellectual property laws, non-disclosure agreements with our employees, clients and other relevant persons and other measures to protect our intellectual property, including our brand identity. Nevertheless, it may be possible for third parties to obtain and use our intellectual property without authorisation. The unauthorised use of intellectual property is common in China and enforcement of intellectual property rights by PRC regulatory agencies is inconsistent. As a result, litigation may be necessary to enforce our intellectual property rights. Litigation could result in substantial costs and diversion of our management’s attention and resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China’s legal system and potential difficulties in enforcing a court judgment in China, there is no guarantee that we would be able to halt any unauthorised use of our intellectual property in China through litigation.

**We may be subject to third-party claims of intellectual property infringement.**

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

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

If we are found to have infringed upon the intellectual property rights of any third party in legal or other proceedings that may be asserted against us, we could be subject to material monetary liabilities for such infringement. We could also be required to refrain from using, developing or selling certain services incorporating the affected intellectual property rights, which could materially and adversely affect our business and results of operations. We may continue to receive, in the future, notices of claims of infringement, misappropriation or misuse of other

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parties’ proprietary rights. There can be no assurance that we will prevail in contesting these claims or that actions alleging infringement by us of third-party intellectual property rights will not be asserted or prosecuted against us. Furthermore, legal or other proceedings involving infringement of intellectual property rights may require significant time and expense to defend, may divert management’s attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations and financial condition. Any negative publicity about our claimed infringement of a third party’s proprietary rights could also harm our business.

**Competition for employees is intense, and we may not be able to attract and retain the qualified and skilled employees needed to support our business.**

We believe our success depends on the efforts and talent of our employees, including data centre management, operations, engineering, IT, risk management, and sales and marketing personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled personnel is extremely intense. We may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. Some of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and expenses in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements, and the quality of our services and our ability to serve our clients could diminish, resulting in a material adverse effect on our business.

**Our operating results may fluctuate, which could make our future results difficult to predict, and may fall below investor or analyst expectations.**

Our operating results may fluctuate due to a variety of factors, including many of the risks described in this section, which are outside of our control. You should not rely on our operating results for any prior periods as an indication of our future operating performance. Fluctuations in our net revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of long-term future net revenue. Given the relatively large fixed cost of revenue for services, other than utility costs, any substantial adjustment to our costs to account for lower-than-expected levels of net revenue will be difficult. Consequently, if our net revenue does not meet projected levels, our operating performance will be negatively affected. If our net revenue or operating results do not meet or exceed the expectations of investors or securities analysts, the price of our Shares may decline.

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

The global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by

## RISK FACTORS

the central banks and financial authorities of some of the world’s leading economies, including problems that may arise from the unwinding of those policies. The Federal Reserve has signaled its intention to raise interest rates in the United States. Recently, the Russia-Ukraine conflict has caused, and continues to intensify, significant geopolitical tensions in Europe and across the world. This conflict and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. As a result, any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

**If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.**

Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

**Issues relating to title certificates may disrupt our ability to occupy and use some of the properties we lease from third parties**

As at the Latest Practicable Date, we leased 2 properties in the PRC, which were leased from lessors who were not able to provide the valid title certificates. As a result, the validity of such leases may be subject to legal challenges. For leases of such properties with defective legal titles, all lessors have provided confirmation or other documentary evidence that they agree to provide us with prior notices to ensure the normal operation of our offices if there is a change of legal title, or to compensate for the losses incurred due to defective legal titles. For details of the leases, please refer to the paragraph headed “Business — Properties” in this document. We believe leases of such properties with defective legal titles are immaterial to our business operation and financial condition. However, if the validity of such leases is challenged by third parties, we may be forced to relocate the affected offices, resulting in temporary disruption to our operation and additional costs.

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### RISKS RELATED TO OUR CONTRACTUAL ARRANGEMENTS

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

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

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

As there still exists uncertainties regarding the interpretation and application of existing and future PRC laws on the validity of the contractual arrangement, relevant PRC legislative, administrative or judicial bodies in the future may, in accordance with the interpretation of the existing PRC laws or the laws and regulations promulgated in the future, especially regulations on the policies regarding to industries with foreign investment, make decisions contrary to the opinions in this legal opinion. Once such a contrary decision is made, the contractual arrangement shall be revised accordingly and may be subject to the following measures taken by relevant government departments:

- withdrawal of business and operating licences of the WFOE, members of the group controlled under contractual arrangement;
- restriction or prohibition on the operation of the WFOE, members of the group controlled under contractual arrangement;
- confiscation of any income which is deemed as illegal gained by the WFOE and members of the group controlled under contractual arrangement ;
- imposition of fines or other penalties that may be difficult or impossible to comply with on the WFOE and members of the group controlled under contractual arrangement; (e) enjoining the WFOE, members of the group controlled under contractual arrangement to undertake restructuring of its shareholding structures or operations; or

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- restriction or prohibition on the use of any [REDACTED] from the issuer’s [REDACTED] to conduct domestic business and operations.

Furthermore, any of the assets under the name of any record holder of equity interest in a material Consolidated Affiliated Entity, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to provide IDC Solution Services. In addition, if the imposition of any of these penalties causes us to be unable to direct the activities of a Consolidated Affiliated Entity and its respective subsidiaries or the right to receive their economic benefits, we would no longer be able to consolidate such a Consolidated Affiliated Entity into our financial statements, which could materially and adversely affect our business, results of operations and financial condition. In this case, we may also face the risk that the Stock Exchange may consider our Company to be no longer suitable for [REDACTED] and consequently [REDACTED] our Shares.

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

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

## **RISK FACTORS**

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

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

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

The Contractual Arrangements are governed by PRC laws and provide for dispute resolution by way of arbitration in the PRC. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Cloud Factory, injunctive relief and/or winding up of Cloud Factory. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong, the Cayman Islands and courts in other countries with jurisdiction are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, we have been advised by our PRC Legal Advisers that the abovementioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in our Consolidated Affiliated Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. In addition, our PRC Legal Advisers are of the view that, even though the Contractual Arrangements provide that overseas courts such as Hong Kong and the Cayman Islands may grant and/or enforce interim remedies in support of the arbitration, such interim remedies (even if so granted by courts in Hong Kong, the Cayman Islands or courts in other countries with jurisdiction in favour of an aggrieved party) may not be recognised or enforced by PRC courts. Although relevant signing parties have agreed on the aforesaid dispute resolution clause set out in the Control Agreement, some of the provisions under the aforesaid dispute resolution clause do not have a legal basis in the PRC and, in the course of practice, relevant arbitration committee may not be able to enforce such dispute resolution clause and the PRC Court may not enforce the award of relevant arbitration committee and the provisional injunctive relief or other provisional relief granted by relevant overseas court. As a result, in the event that Cloud Factory or any of its shareholders or Wuxi Lingjingyun breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in



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a timely manner, and if we are unable to enforce the Contractual Arrangements, our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected.

**We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.**

Our Consolidated Affiliated Entities hold certain assets that may be critical to the operation of part of our business. If the shareholders of our Consolidated Affiliated Entities breach the Contractual Arrangements and voluntarily liquidate the Consolidated Affiliated Entities, or if our Consolidated Affiliated Entities declare bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors or are otherwise disposed of without our consent, we may be unable to continue some of our business activities, which could adversely affect our business, financial condition and results of operations. In addition, if our Consolidated Affiliated Entities undergo involuntary liquidation proceedings, third-party creditors may claim rights to some or all of their assets, thereby hindering our ability to operate part of our business, which could adversely affect our business, financial condition and results of operations.

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

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

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

For details of the Foreign Investment Law, please refer to the paragraph headed “Contractual Arrangements — Legality of the Contractual Arrangements — Development in the PRC legislation on foreign investment” in this document.

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

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

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

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

**Our Group does not have any insurance which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder.**

The insurance of our Group does not cover the risks relating to the Contractual Arrangements and the transactions contemplated thereunder and our Company has no intention to purchase any insurance in this regard. If any risk arises from the Contractual Arrangements in the future, such as those affecting the enforceability of the Contractual Arrangements and the operation of the Consolidated Affiliated Entities, the financial results and financial position of our Group may be adversely affected.

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### **The WFOE bears economic risks as the primary beneficiary of the Consolidated Affiliated Entities.**

As the primary beneficiary of the Consolidated Affiliated Entities, the WFOE will share both profit and loss of the Consolidated Affiliated Entities and bears economic risks which may arise from difficulties in the operation of our Group. The WFOE may have to provide financial support in the event of financial difficulty of the Consolidated Affiliated Entities. Under these circumstances, our Group’s financial results and financial position may be adversely affected by the worsening financial performance of the Consolidated Affiliated Entities and the need to provide financial support to it.

### **There may be a potential impact to our Company if our contractual arrangements with the Consolidated Affiliated Entity, its subsidiaries and shareholders are not treated as domestic investment.**

If the operation of our businesses conducted through the Consolidated Affiliated Entity is subject to any restrictions pursuant to the Negative List (2021), or any successor regulations, and the contractual arrangements are not treated as domestic investment, the contractual arrangements may be regarded as invalid and illegal. If this were to occur, we would not be able to operate the relevant businesses through the contractual arrangements and would lose our rights to receive the economic benefits of the Consolidated Affiliated Entities. As a result, we would no longer consolidate the financial results of the Consolidated Affiliated Entities into our financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. If we do not receive any compensation, we would recognise an investment loss as a result of such de-recognition.

## **RISKS RELATED TO DOING BUSINESS IN THE PEOPLE’S REPUBLIC OF CHINA**

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

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

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures

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emphasising the utilisation of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the intelligent IDC solution service market in the PRC or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

Although the Chinese economy has grown significantly in the past decades, that growth may not continue and any slowdown may have a negative effect on our business. The overall Chinese economy affects our profitability, since bandwidth usage may decrease in a slowing economy. Any adverse changes in economic conditions in the PRC, in the policies of the PRC government or in the laws and regulations in the PRC, could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business, financial condition and results of operations, lead to a reduction in demand for our services and adversely affect our competitive position.

Therefore, we cannot predict whether changes in the PRC’s economic, political, social and legal conditions and government policies will have any adverse effect on our current or future business, financial condition and results of operations.

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

The PRC legal system is a civil law system based on written statutes and court decisions that have limited precedential value. The PRC legal system is evolving rapidly. Therefore, many of these laws and regulations are relatively new and the source of court decisions and applications is limited. Substantial uncertainties surrounding the interpretation and enforcement of relevant laws and regulations applicable to our business may limit the legal protections available to us.

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

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

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**The permit, filing or other requirements of the CSRC or other PRC government authorities in relation to our proposed [REDACTED] or further capital raising activities may be required PRC laws.**

On 6 July 2021, the General Office of the Central Committee of the Communist Party of the PRC and the General Office of the State Council jointly issued the Opinions on Strictly Cracking Down on Illegal Securities Activities 《(關於依法從嚴打擊證券違法活動的意見)》, which emphasised the need to strengthen the administration over illegal listing, and the supervision over overseas listing by domestic companies. Stringent measures aimed at establishing a robust regulatory system are expected to be taken to deal with the risks associated with overseas listed companies based in or having significant operations in China, and to tackle any related cybersecurity and data security, cross-border data transmission, and confidential information management, among other matters.

Further, on 17 February 2023, the CSRC released the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies 《(境內企業境外發行證券和上市管理試行辦法)》 and five ancillary interpretive guidelines (collectively, the “**Overseas Listing Trial Measures**”), which apply to overseas offerings and listing by domestic companies of equity shares, depository receipts, corporate bonds convertible to equity shares, and other equity securities, and came into effect on 31 March 2023. According to the Overseas Listing Trial Measures, overseas offering and listing by domestic companies shall be made in strict compliance with relevant laws, administrative regulations and rules concerning national security in spheres of foreign investment, cybersecurity and data security and duly fulfill their obligations to protect national security, and the domestic companies may be required to rectify, make certain commitment, divest business or assets, or take any other measures as per the competent authorities’ requirements, so as to eliminate or avert any impact of national security resulting from such overseas offering and listing. No overseas offering and listing shall be made under any of the following circumstances: (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; or (ii) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law, among other scenarios. The Overseas Listing Trial Measures provide that if an issuer meets both of the following conditions, the overseas securities offering and listing conducted by such issuer will be determined as an indirect overseas offering and listing subject to the filing procedure set forth under the Overseas Listing Trial Measures: (i) 50% or more of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements over the same period for the most recent accounting year is accounted for by domestic companies; and (ii) the main parts of the issuer’s business activities are conducted in the PRC, or its main places of business are located in the Chinese Mainland, or the senior managers in charge of its business operation and management are mostly Chinese citizens or domiciled in the PRC. For an initial public offering and listing in an overseas market, the issuer shall designate a major domestic operating entity to file with the CSRC within three working days after the relevant application is submitted overseas. For details, please refer to the paragraph headed “Regulatory Overview — Regulations on M&A Rules and Overseas

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Listings” in this document. Based on the foregoing, we will be required to complete the filing procedures with the CSRC in connection with the [REDACTED] pursuant to the Overseas Listing Trial Measures.

On the same date, the CSRC further published a notice clarifying that from the effective date of the Overseas Listing Trial Measures, the issuer that have already submitted valid application of the initial public offering and listing but have not obtained the overseas regulatory authorities or security stock exchange may reasonably arrange the time of filing their applications and shall complete the filing procedures with the CSRC before the overseas offering and listing. In addition, in the process of filing, where the issuer may be under any of the forbidden circumstances provided under the Overseas Listing Trial Measures, the CSRC may solicit the opinions of the competent government authorities under the State Council. With respect to the issuer with Contractual Arrangements, at a press conference held for these new regulations, officials from the CSRC clarified that the CSRC will seek opinions from relevant government authorities on the Contractual Arrangements and agree those issuers with Contractual Arrangements as well as in compliance with relevant requirements to file for its overseas offering and listing.

We cannot assure you that we could meet such requirements, obtain such permit from the relevant government authorities, or complete such filing in a timely manner or at all. Any failure may restrict our ability to complete [REDACTED] or any future capital raising activities, which would have a material adverse effect on our business and financial positions. However, as the Overseas Listing Trial Measures was recently promulgated, there remains substantial uncertainties as to its interpretation and implementation and how it may impact our ability to raise or utilise fund and business operation.

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

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



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primary assets, accounting books, and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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

**Failure to make adequate contributions to various employee benefits plans as required by PRC regulations may subject us to penalties.**

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund, and contribute to the plans in amounts equal certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. During the Track Record Period, we did not make full contributions to social insurance and housing provident funds for some of our employees; and we also engaged third-party agents (who were Independent Third Parties) to assist with social insurance and housing provident funds’ registration and payments, primarily due to (i) inadvertent oversight of the relevant PRC laws and regulations and the implementation of which vary from city to city; (ii) unwillingness of our employees to participate in the schemes as their salaries would be reduced; (iii) migrant workers’ typical unwillingness to participate in the social welfare schemes of the city they temporarily reside given such contributions are generally not transferrable among cities; and (iv) practical impossibility for employees who have already participated in the new rural cooperative medical insurance schemes to take part in social insurance scheme in certain urban areas. For details, please refer to the paragraph headed “Business — Legal Proceedings and Non-compliance” in this document. We cannot assure you that the relevant local government authorities will not require us to pay the outstanding amount within a specified time limit or impose late fees or fines on us, which may materially and adversely affect our financial condition and results of operations.

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

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

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

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

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

The PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process are in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may, at its discretion, further restrict access to foreign currencies in the future for

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current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

**We rely on dividends and other distributions from Wuxi Lingjingyun, our WFOE, to fund our cash and financing requirements, and any limitation on the ability of our subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.**

As an offshore holding company, we rely in part on dividends from WFOE for our cash requirements, dividends payments and other distributions to our Shareholders, and to service any debt that we may incur and pay our operating expenses. The payment of dividends by entities organised in China is subject to limitations. In particular, PRC regulations permit our subsidiaries to pay dividends only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, WFOE is required to set aside at least 10% of its annual after-tax profits each year (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50% of such entity’s registered capital. These reserves are not distributable as cash dividends.

If the WFOE incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions, pay dividends and otherwise fund and conduct our business.

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

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

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

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

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

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(關於非居民企業所得稅源泉扣繳有關問題的公告) (“**STA Circular 37**”), which came into force on 1 December 2017. STA Circular 37, among other things, simplifies the procedures of withholding and payment of income tax levied on non-resident enterprises.

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

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

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular 37, was promulgated by the SAFE in July 2014, requiring PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

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



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(i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal; and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

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

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

**It may be difficult to effect service of process upon us or our Directors or executive officers who reside in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.**

We are a company incorporated in the Cayman Islands with a substantial part of our assets and our Directors and senior management located within China. Therefore, it may not be possible for investors to effect service of process upon us or our Directors and senior management inside



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China or to enforce against us or them in China any judgments obtained from non-PRC courts. On 14 July 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “2006 Arrangement”) which was revised on 3 July 2008 and took effect as at 1 August 2008, pursuant to which any designated people’s court of the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people’s court of the PRC or Hong Kong court for recognition and enforcement of the judgement.

On 18 January 2019, the Supreme People’s Court of the PRC and the government of the Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the “2019 Arrangement”). Although the 2019 Arrangement has been signed, it remains unclear when it will come into effect. When the 2019 Arrangement becomes effective, it will supersede the 2006 Arrangement and any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the effective judgements in civil and commercial cases under the 2019 Arrangement but will be subject to the conditions set forth in the 2019 Arrangement.

Therefore, the outcome and effectiveness of any action brought under the 2019 Arrangement is still uncertain. We cannot assure you that an effective judgement that complies with the 2019 Arrangement can be recognised and enforced in a PRC court. In addition, China currently is not a party to any treaties providing for the reciprocal recognition and enforcement of judgements of courts of the Cayman Islands and many other countries and regions, and therefore recognition and enforcement in China of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

### **RISKS RELATED TO THE [REDACTED]**

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

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

Upon the [REDACTED], the trading volume and the market price of our Shares may be affected or influenced by a number of factors from time to time, including but not limited to, our revenue, profit and cash flow, acquisitions, strategic partnerships, joint ventures or capital

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commitments, changes in our management and general market conditions or other developments affecting us or our industry. There is no assurance that such factors will not occur, and it is difficult to quantify their impact on the trading volume and the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of the Shares and a decrease in the value of the Shares, regardless of our operating performance or prospects.

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

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

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

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

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

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

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods, details of which are referred to in the paragraph headed “[REDACTED] — [REDACTED] arrangements and expenses — [REDACTED] — Undertakings by the Controlling Shareholders — Undertakings pursuant to the [REDACTED]” in this document. We cannot guarantee that our Controlling Shareholders will not dispose of our Shares following the expiration of their respective lock-up periods after the [REDACTED]. Our Group cannot predict the effect, if any, of any future disposal of Shares by any of our Controlling Shareholders, or that the Shares held by our

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Controlling Shareholders are available for purchase in the market may have on the market price of our Shares. Future sales, disposals, or other transfers of a substantial number of our Shares by our Controlling Shareholders in public market, or any prospects or possibilities of such sales, disposals or other transfers, as to or against which the holders of our Shares may or may not have a right to vote or veto, could adversely impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

**The trading price of our Shares may be volatile, which could result in substantial losses to holders of our Shares.**

The trading price of our Shares can be volatile for different reasons. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies’ securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in Hong Kong, which consequently may impact the trading performance of our Shares, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time-to-time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011, in 2015, early 2020 and 2022. In addition to the above factors, the price and trading volume of our Shares may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry, clients or suppliers;
- announcements of studies and reports relating to the quality of our service offerings or those of our competitors;
- changes in the economic performance or market valuations of other data centre services companies;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the market for data centre services;

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- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- any actual or alleged illegal acts of our senior management or other key employees;
- fluctuations of exchange rates between the Renminbi, the Hong Kong dollar and the U.S. dollar;
- political or market instability or disruptions, and actual or perceived social unrest in the United States, Hong Kong or other jurisdictions;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or perceived potential sales or other dispositions of existing or additional Shares or other equity or equity-linked securities; and
- attacks by short sellers, including the publication of negative opinions regarding us and our business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short.

**If securities or industry analysts do not publish research or publish inaccurate or unfavourable research about our business, the market price for our Shares and trading volume could decline.**

The trading market for our Shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who cover us downgrade our Shares or publish inaccurate or unfavourable research about our business, the market price for our Shares would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our Shares to decline.

**Techniques employed by short sellers may drive down the market price of our Shares.**

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's best interests for the price of the stock to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. These short attacks have, in the past, led to the selling of shares in the market.

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Public companies that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations. We may in the future be, the subject of unfavourable allegations made by a short seller. Any such allegations may be followed by periods of instability in the market price of our Shares and negative publicity. Regardless of whether such allegations are proven to be true or untrue, it is not clear what effect such negative publicity could have on us, and we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which it can proceed against the relevant short seller by principles of freedom of speech, applicable law or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and stockholders’ equity, and any investment in our Shares could be greatly reduced or rendered worthless.

**Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our Shares for return on your investment.**

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Shares and as a source for any future dividend income.

Our Board of Directors has complete discretion as to whether to distribute dividends. Even if our Board of Directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board of Directors. Accordingly, the return on your investment in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value or even maintain the price at which you purchased the Shares. You may not realise a return on your investment in our Shares and you may even lose your entire investment in our Shares.

**The Shares are equity and are subordinate to our existing and future indebtedness, and any preferred stock we may issue in the future.**

The Shares are our equity interests and do not constitute indebtedness. As such, Shares will rank junior to all indebtedness and other non-equity claims on us with respect to assets available to satisfy claims on us, including in a liquidation of us. Additionally, holders of our Shares may be subject to prior dividend and liquidation rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding.

## RISK FACTORS

Our Shares will rank junior to our convertible preferred stock, if any, with respect to the payment of dividends and amounts payable in the event of our liquidation, dissolution or winding-up of our affairs. This means that no dividends may be declared or paid on our Shares, and we will not be permitted to repurchase any of our Shares subject to limited exceptions. Likewise, in the event of our voluntary or involuntary liquidation, dissolution or winding-up of our affairs, no distribution of our assets may be made to holders of our Shares until immediately prior to such liquidation. Our Board of Directors is authorised to issue additional classes or series of preferred stock without any action on the part of the shareholders. The Board of Directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our Shares with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our Shares with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our Shares, the rights of holders of our Shares or the market price of our Shares could be adversely affected.

**You must rely on the judgment of our management as to the use of the [REDACTED] from this offering, and such use may not produce income or increase the price of our Shares.**

We currently plan to use the [REDACTED] of this offering to upgrade our IDC Solution Services by investing in BMS and develop an edge computing platform. Our management will have considerable discretion in the application of the [REDACTED] received by us. You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. The [REDACTED] may be used for corporate purposes that do not improve our efforts to achieve or maintain profitability or increase the price of our Shares. The [REDACTED] from this offering may be placed in investments that do not produce income or that lose value.

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct the entire operations in the PRC and all of our assets are located in the PRC. In addition, some of our Directors and executive officers and the experts named in this document do not reside within Hong Kong, and most of their assets are not located in Hong Kong. As a result, it may be difficult or impossible for you to bring an action against us or against them in Hong Kong in the event that you believe that your rights have been infringed under Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

There is no statutory enforcement in the Cayman Islands of judgments obtained in the Hong Kong courts (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments). A judgment obtained in such jurisdiction will be recognised and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of



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competent jurisdiction; (b) is not obtained by fraud; (c) is final and conclusive; (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

**You may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong courts may be limited, because we are incorporated under Cayman Islands law.**

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Act and the common law of the Cayman Islands. The rights of shareholders to take action against our Directors, actions by minority shareholders and the fiduciary duties of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our Directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States or the Hong Kong courts. In particular, the Cayman Islands has a less developed body of securities laws than Hong Kong. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in Hong Kong courts.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our Directors have discretion under our Memorandum and Articles of Association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder resolution or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board of Directors or Controlling Shareholders than they would as public shareholders of a company incorporated in Hong Kong.

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

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