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**AsiaInfo Technologies Limited**  
**亞信科技控股有限公司**

*(Incorporated in the British Virgin Islands with limited liability)*

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**AsiaInfo Technologies Limited**  
**亞信科技控股有限公司**

*(Incorporated in the British Virgin Islands with limited liability)*

[REDACTED]

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

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

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

Maximum [REDACTED] : [REDACTED]

Nominal value : HK\$[0.0000000125] per Share

[REDACTED]

*Joint Sponsors*



[REDACTED]

[•]

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A copy of this [REDACTED], having attached thereto the documents specified in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this [REDACTED], has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this [REDACTED] or any of the other documents referred to above.

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[REDACTED]

**EXPECTED TIMETABLE**

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[REDACTED]

**EXPECTED TIMETABLE**

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[REDACTED]

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*You should rely only on the information contained in this [REDACTED] and the [REDACTED] to make [REDACTED]. The [REDACTED] is made solely on the basis of the information contained and the representations made in this [REDACTED]. We have not authorized anyone to provide you with information that is different from what is contained in this [REDACTED]. Any information or representation not contained nor made in this [REDACTED] and the [REDACTED] must not be relied on by you as having been authorized by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of our or their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the [REDACTED].*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this [REDACTED]. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED].*

*There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set forth in the section headed “Risk Factors” of this [REDACTED]. You should read that section carefully before you decide to invest in the [REDACTED].*

## OVERVIEW

We are the largest telecom software product and related service provider in China, with a market share of 25.3% as measured by revenue in 2017, according to Frost & Sullivan. According to the same source, we are also the largest BSS software product and related service provider in China, with a market share of 50.0% as measured by revenue in 2017.

As the provider of China’s first-generation telecom software, we have collaborated extensively with each of China Mobile, China Unicom and China Telecom since the 1990s, supporting over one billion subscribers nationwide. This long-standing business relationship has provided us with deep insights into telecom operators’ IT and network environment and business and operational needs, enabling us to develop an extensive portfolio of over 500 mission-critical, carrier-grade software products, ranging from CRM, charging & billing and big data to IoT and intelligent network products. As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had 176, 181, 193 and 199 telecom operator customers, respectively, including the headquarters, provincial, municipal and specialized companies and joint venture of China Mobile, China Unicom and China Telecom, with whom we negotiate and enter into contracts individually and directly. In 2015, 2016, 2017 and the three months ended March 31, 2018, revenue for the Software Business from telecom operators accounted for 87.0%, 88.9%, 93.9% and 96.6% of our revenue from continuing operations, respectively.

We are also actively expanding our presence in China’s non-telecom software product and related service market. With our extensive industry knowledge and expertise and solid leadership in the telecom software product and related service market and a full-spectrum of highly-specialized, carrier-grade product portfolio, we believe we are favorably positioned to address enterprises’, especially large enterprises’ similar, fundamental needs in business transformation and digitalization. As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had 23, 26, 28 and 31 large enterprise customers in the cable TV, postal and financial services industries. By serving both the telecom and non-telecom markets with shared resources, management, domain expertise and technology know-how, we are able to leverage synergies in winning new businesses and remain cost competitive.

### *Continuing Operations*

**Software Business.** During the Track Record Period, we derived a substantial majority of our revenue from the provision of software products and related services, as well as a variety of other services, to Chinese telecom operators and enterprises (collectively, the “**Software Business**”), including:

- **Software products and related services.** We are primarily engaged in the provision of software products and related services through the on-premise, project-based delivery model, including: (i) software products and related deployment services, pursuant to fixed-price project development contracts with our customers, and (ii) ongoing operation and maintenance services;
- **Data-driven operation services.** We provide data-driven operation services through data-driven operation platforms under a pay-as-a-result model. These services are either

## SUMMARY

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provided directly to telecom operators or in collaboration with telecom operators to their government and enterprise customers; and

- **Others.** We also render a variety of other services, including procurement of third-party hardware and software for some of our projects, system integration services, business consulting services and corporate trainings.

**Network Security Business.** During the Track Record Period, our results from continuing operations also included results of the provision of network security related software products and services to telecom operators and small- and medium-sized enterprises (the “**Network Security Business**”). Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, in order to accommodate our customers’ project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018. However, some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing. See “Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement”, “Business—Our Products and Services—Others—Network Security Business” and “Financial Information—Description of Major Components of Our Results of Operations—Continuing Operation” for more details.

Our business continued to grow during the Track Record Period. Our revenue from continuing operations increased from RMB4,764.9 million in 2015 to RMB4,856.0 million in 2016 and further to RMB4,948.3 million in 2017. Our revenue from continuing operations increased by 6.1% from RMB966.7 million for the three months ended March 31, 2017 to RMB1,026.0 million for the three months ended March 31, 2018. Our profit for the year from continuing operations was RMB309.8 million, RMB74.0 million and RMB335.2 million in 2015, 2016 and 2017, respectively. Our profit for the period from continuing operations was RMB76.9 million in the three months ended March 31, 2018, compared to loss for the period from continuing operations of RMB61.9 million in the three months ended March 31, 2017. During the Track Record Period, we generated all of our revenues from continuing operations in China.

Excluding the impact of share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] and interest expenses for the Privatization Syndicated Loan, our adjusted profit for the year from continuing operations was RMB470.0 million, RMB253.1 million and RMB547.6 million in 2015, 2016 and 2017, respectively. Our adjusted profit for the period from continuing operations was RMB130.4 million in the three months ended March 31, 2018, compared to adjusted loss for the period from continuing operations in the three months ended March 31, 2017 of RMB28.0 million. See “Financial Information—Non-HKFRS Measures” for more details.

Our revenue from continuing operations for the Software Business increased from RMB4,275.2 million in 2015 to RMB4,514.6 million in 2016, and further to RMB4,824.9 million in 2017. Our revenue from continuing operations for the Software Business increased by 10.5% from RMB924.5 million for the three months ended March 31, 2017 to RMB1,021.8 million for the three months ended March 31, 2018.



## SUMMARY

The following table sets forth the breakdown of our revenue from continuing operations by product and service category, both in absolute amounts and as percentages of our total revenue from continuing operations, for the periods indicated:

|  | For the year ended December 31, |              |                  |              |                  |              | For the three months ended March 31, |              |                  |              |  |
|--|---------------------------------|--------------|------------------|--------------|------------------|--------------|--------------------------------------|--------------|------------------|--------------|--|
|  | 2015                            |              | 2016             |              | 2017             |              | 2017                                 |              | 2018             |              |  |
|  | RMB'000                         | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                              | %            | RMB'000          | %            |  |
|  |                                 |              |                  |              |                  |              |                                      |              |                  |              |  |
| <b>Revenue from continuing operations</b>        |                                 |              |                  |              |                  |              |                                      |              |                  |              |  |
| <b>Software Business:</b>                        |                                 |              |                  |              |                  |              |                                      |              |                  |              |  |
| Software products and related services . . . . . | 3,996,677                       | 83.9         | 4,170,779        | 85.9         | 4,541,482        | 91.8         | 875,401                              | 90.6         | 977,409          | 95.3         |  |
| Data-driven operation services . . . . .         | 18,066                          | 0.4          | 31,383           | 0.6          | 41,745           | 0.8          | 4,203                                | 0.4          | 10,350           | 1.0          |  |
| Others <sup>1</sup> . . . . .                    | 260,497                         | 5.4          | 312,483          | 6.5          | 241,652          | 4.9          | 44,888                               | 4.6          | 33,999           | 3.3          |  |
| <b>Total Software Business</b> . . . . .         | <b>4,275,240</b>                | <b>89.7</b>  | <b>4,514,645</b> | <b>93.0</b>  | <b>4,824,879</b> | <b>97.5</b>  | <b>924,492</b>                       | <b>95.6</b>  | <b>1,021,758</b> | <b>99.6</b>  |  |
| <b>Network Security Business</b> . . . . .       | <b>489,631</b>                  | <b>10.3</b>  | <b>341,308</b>   | <b>7.0</b>   | <b>123,445</b>   | <b>2.5</b>   | <b>42,241</b>                        | <b>4.4</b>   | <b>4,197</b>     | <b>0.4</b>   |  |
| <b>Total</b> . . . . .                           | <b>4,764,871</b>                | <b>100.0</b> | <b>4,855,953</b> | <b>100.0</b> | <b>4,948,324</b> | <b>100.0</b> | <b>966,733</b>                       | <b>100.0</b> | <b>1,025,955</b> | <b>100.0</b> |  |

1. Includes revenue from (i) third-party hardware and software procurement, (ii) system integration services, (iii) business consulting services and (iv) corporate trainings.

The following table sets forth the breakdown of our revenue from continuing operations by customer groups, both in absolute amounts and as percentages of our total revenue from continuing operations, for the periods indicated:

|  | For the year ended December 31, |              |                  |              |                  |              | For the three months ended March 31, |              |                  |              |  |
|--|---------------------------------|--------------|------------------|--------------|------------------|--------------|--------------------------------------|--------------|------------------|--------------|--|
|  | 2015                            |              | 2016             |              | 2017             |              | 2017                                 |              | 2018             |              |  |
|  | RMB'000                         | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                              | %            | RMB'000          | %            |  |
|  |                                 |              |                  |              |                  |              |                                      |              |                  |              |  |
| <b>Revenue from continuing operations</b>    |                                 |              |                  |              |                  |              |                                      |              |                  |              |  |
| <b>Software Business:</b>                    |                                 |              |                  |              |                  |              |                                      |              |                  |              |  |
| Telecom operators <sup>1</sup> . . . . .     | 4,143,903                       | 87.0         | 4,314,101        | 88.9         | 4,644,559        | 93.9         | 897,960                              | 92.9         | 990,873          | 96.6         |  |
| Large enterprises . . . . .                  | 53,133                          | 1.1          | 87,329           | 1.8          | 112,465          | 2.3          | 16,588                               | 1.7          | 24,124           | 2.3          |  |
| Small- to medium-sized enterprises . . . . . | 78,204                          | 1.6          | 113,215          | 2.3          | 67,855           | 1.3          | 9,944                                | 1.0          | 6,761            | 0.7          |  |
| <b>Total Software Business</b> . . . . .     | <b>4,275,240</b>                | <b>89.7</b>  | <b>4,514,645</b> | <b>93.0</b>  | <b>4,824,879</b> | <b>97.5</b>  | <b>924,492</b>                       | <b>95.6</b>  | <b>1,021,758</b> | <b>99.6</b>  |  |
| <b>Network Security Business</b> . . . . .   | <b>489,631</b>                  | <b>10.3</b>  | <b>341,308</b>   | <b>7.0</b>   | <b>123,445</b>   | <b>2.5</b>   | <b>42,241</b>                        | <b>4.4</b>   | <b>4,197</b>     | <b>0.4</b>   |  |
| <b>Total</b> . . . . .                       | <b>4,764,871</b>                | <b>100.0</b> | <b>4,855,953</b> | <b>100.0</b> | <b>4,948,324</b> | <b>100.0</b> | <b>966,733</b>                       | <b>100.0</b> | <b>1,025,955</b> | <b>100.0</b> |  |

1. Including each of China Mobile, China Unicom, China Telecom and China Tower's: (i) headquarters, (ii) provincial companies, (iii) municipal companies, and (iv) specialized companies, with whom we negotiate and enter into contracts individually and directly.

### Discontinued Operations

During the Track Record Period, we operated software business serving telecom operators headquartered in South East Asia, Europe and other regions outside the PRC (the “**International Business**”), which was disposed of in June 2016. Separately, we acquired AsiaInfo Big Data, which was mainly engaged in the provision of big data software products and services to telecom operators, in December 2017 (the “**Acquisition**”). AsiaInfo Big Data was also engaged in the provision of software products and services that enable government bodies and public institutions to provide e-public services, such as smart city and e-government services (the “**E-public Service Business**”). The major entities comprising the E-public Service Business had been disposed of in November 2017 prior to the completion of the Acquisition in December 2017. The few remaining contracts of E-public Service Business have been completed as of March 31, 2018. We recorded the results of the International Business and the E-public Service Business as discontinued operations during the Track Record Period. See “Relationship with the Controlling Shareholders”, “Directors and Senior Management”, “Business—Our Business Model”, “Financial Information—Description of Major

## SUMMARY

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Components of Our Results of Operations”, Note 12 to “Appendix I—Accountants’ Report” and Note 10 to “Appendix IA—Condensed Combined Financial Statements” for more details.

### OUR COMPETITIVE STRENGTHS

Our competitive strengths include the following:

- largest provider of telecom software products and related services in China;
- long-term customer relationship and loyal customer base;
- industry-leading R&D capabilities and a full-spectrum, highly-specialized, continuously-innovative product portfolio;
- end-to-end professional deployment service capabilities, custom development service capabilities and high-standard of onsite services rapidly meeting customer demand;
- data-driven operation capabilities powered by AI, machine learning, big data and other technologies increase customer value; and
- seasoned and visionary management with proven track record.

### OUR STRATEGIES

We intend to implement the following principal strategies to grow our business and create value for our shareholders:

- reinforce our leading position in the telecom software products and related service market;
- actively expand our customer base in the non-telecom software product and related service market;
- actively explore new business opportunities in the areas of data-driven operation services, IoT and Intelligent network;
- maintain technology leadership and continue to innovate;
- attract, train and motivate key talents; and
- selectively pursue strategic alliances and acquisitions.

### SUMMARY COMBINED FINANCIAL INFORMATION

The following is a summary of our combined financial information for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2017 and 2018, and as of December 31, 2015, 2016, 2017 and March 31, 2018, extracted from the Accountants’ Report set out in Appendix I and the condensed combined financial statements set out in Appendix IA to this [REDACTED]. See “Financial Information—Results of Operations” for a discussion of our combined financial information during the Track Record Period.

Our results of operations during the Track Record Period include results of the discontinued operations, which is comprised of (i) the International Business, and (ii) the E-public Service Business. See “Business—Our Business Model” and “Financial Information—Description of Major Components of Our Results of Operations—Discontinued operations” for more details.

## SUMMARY

### Summary Combined Statements of Profit or Loss and Other Comprehensive Income

|  | Year ended December 31, |                  |                | Three months ended March 31, |               |
|--|-------------------------|------------------|----------------|------------------------------|---------------|
|  | 2015                    | 2016             | 2017           | 2017                         | 2018          |
|  | RMB'000                 |                  |                |                              |               |
|  |                         |                  |                | (unaudited)                  | (unaudited)   |
| <b>Continuing operations:</b>  |                         |                  |                |                              |               |
| Revenue  | 4,764,871               | 4,855,953        | 4,948,324      | 966,733                      | 1,025,955     |
| Cost of sales  | (2,991,246)             | (3,183,328)      | (3,277,896)    | (751,160)                    | (740,582)     |
| Gross profit   | 1,773,625               | 1,672,625        | 1,670,428      | 215,573                      | 285,373       |
| Other income   | 92,258                  | 141,791          | 114,712        | 32,262                       | 22,082        |
| Other gains and losses   | (4,096)                 | (45,228)         | 68,828         | 9,097                        | 66,410        |
| Selling and marketing expenses   | (572,945)               | (614,572)        | (481,831)      | (94,908)                     | (86,688)      |
| Administrative expenses  | (255,754)               | (273,079)        | (403,800)      | (75,663)                     | (87,487)      |
| Research and development expenses  | (629,601)               | (636,614)        | (430,246)      | (127,585)                    | (87,752)      |
| Share of results of associates   | —                       | —                | 258            | (231)                        | 443           |
| Share of results of a joint venture  | —                       | (10,000)         | —              | —                            | —             |
| Finance costs  | (6,075)                 | (93,905)         | (83,986)       | (24,130)                     | (19,537)      |
| [REDACTED]   | —                       | —                | (30,603)       | —                            | (9,635)       |
| Profit (loss) before tax   | 397,412                 | 141,018          | 423,760        | (65,585)                     | 83,209        |
| Income tax (expenses) benefit  | (87,622)                | (66,998)         | (88,584)       | 3,704                        | (6,307)       |
| Profit (loss) for the year/period from continuing operations   | 309,790                 | 74,020           | 335,176        | (61,881)                     | 76,902        |
| <b>Discontinued operations:</b>  |                         |                  |                |                              |               |
| Loss for the year/period from discontinued operations  | (420,462)               | (294,873)        | (17,233)       | (24,616)                     | (1,279)       |
| <b>Profit (loss) for the year/period</b>   | <b>(110,672)</b>        | <b>(220,853)</b> | <b>317,943</b> | <b>(86,497)</b>              | <b>75,623</b> |
| <b>Non-HKFRS Measures<sup>1</sup>:</b>   |                         |                  |                |                              |               |
| <b>Adjusted EBITDA from continuing operations (unaudited)<sup>2</sup></b>                            | 624,114                 | 404,329          | 704,555        | (9,238)                      | 151,442       |
| <b>Adjusted profit (loss) for the year/period from continuing operations (unaudited)<sup>3</sup></b> | 470,020                 | 253,104          | 547,630        | (27,968)                     | 130,417       |

- Adjusted EBITDA from continuing operations and adjusted profit (loss) for the year/period from continuing operations are not measures required by, or presented in accordance with, HKFRS. The use of these measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. See “Financial Information—Non-HKFRS Measures” for more details.
- We define adjusted EBITDA from continuing operations as EBITDA from continuing operations (which is profit (loss) before tax from continuing operations plus finance costs and depreciation and amortization expenses) adjusted by adding back share-based compensation and one-off [REDACTED].
- We define adjusted profit (loss) for the year/period from continuing operations as profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] and interest expenses of the Privatization Syndicated Loan.

The following tables reconcile our adjusted EBITDA from continuing operations and adjusted profit (loss) for the year/period from continuing operations for the periods presented to the most directly comparable financial measures calculated and presented in accordance with HKFRS, which are profit (loss) before tax from continuing operations and profit for the year/period from continuing operations:

|  | For the year ended December 31, |                |                | For the three months ended March 31, |                |
|--|---------------------------------|----------------|----------------|--------------------------------------|----------------|
|  | 2015                            | 2016           | 2017           | 2017                                 | 2018           |
|  | RMB'000                         |                |                |                                      |                |
|  |                                 |                |                | (unaudited)                          | (unaudited)    |
| <b>Reconciliation of profit (loss) before tax from continuing operations to EBITDA from continuing operations and adjusted EBITDA from continuing operations</b> |                                 |                |                |                                      |                |
| Profit (loss) before tax from continuing operations  | 397,412                         | 141,018        | 423,760        | (65,585)                             | 83,209         |
| Add:   |                                 |                |                |                                      |                |
| Finance costs  | 6,075                           | 93,905         | 83,986         | 24,130                               | 19,537         |
| Depreciation and amortization expenses   | 195,897                         | 133,731        | 92,717         | 24,752                               | 16,913         |
| EBITDA from continuing operations  | 599,384                         | 368,654        | 600,463        | (16,703)                             | 119,659        |
| Add:   |                                 |                |                |                                      |                |
| Share-based compensation <sup>1</sup>  | 24,730                          | 35,675         | 73,489         | 7,465                                | 22,148         |
| One-off [REDACTED] expenses  | —                               | —              | 30,603         | —                                    | 9,635          |
| <b>Adjusted EBITDA from continuing operations</b>  | <b>624,114</b>                  | <b>404,329</b> | <b>704,555</b> | <b>(9,238)</b>                       | <b>151,442</b> |

## SUMMARY

|  | For the year ended December 31, |                |                | For the three months ended March 31, |                |
|--|---------------------------------|----------------|----------------|--------------------------------------|----------------|
|  | 2015                            | 2016           | 2017           | 2017                                 | 2018           |
|  | RMB'000                         |                |                | (unaudited) (unaudited)              |                |
| <b>Reconciliation of profit (loss) for the year/period from continuing operations to adjusted profit (loss) for the year/period from continuing operations</b> |                                 |                |                |                                      |                |
| Profit (loss) for the year/period from continuing operations   | 309,790                         | 74,020         | 335,176        | (61,881)                             | 76,902         |
| Add:   |                                 |                |                |                                      |                |
| Share-based compensation <sup>1</sup>  | 24,730                          | 35,675         | 73,489         | 7,465                                | 22,148         |
| Amortization of intangible assets resulting from acquisitions  | 135,382                         | 93,991         | 52,331         | 13,083                               | 8,574          |
| One-off [REDACTED]   | —                               | —              | 30,603         | —                                    | 9,635          |
| Interest expenses for the Privatization Syndicated Loan <sup>2</sup>   | 118                             | 49,418         | 56,031         | 13,365                               | 13,158         |
| <b>Adjusted profit (loss) for the year/period from continuing operations</b>   | <b>470,020</b>                  | <b>253,104</b> | <b>547,630</b> | <b>(27,968)</b>                      | <b>130,417</b> |

- Share-based compensation incurred during the Track Record Period was in connection with share options and RSAs granted under the stock incentive plan previously adopted by Holdco Cayman.
- We plan to repay a portion of the Privatization Syndicated Loan using [REDACTED] from the [REDACTED], and expect the related interest expenses to be reduced and the relevant portion of the pledged bank deposits securing such loan to be released afterwards.

## Summary Combined Statements of Financial Position

|  | As of December 31, |           |           | As of March 31, |
|--|--------------------|-----------|-----------|-----------------|
|  | 2015               | 2016      | 2017      | 2018            |
|  | RMB'000            |           |           | (unaudited)     |
| Total non-current assets                     | 2,938,456          | 3,418,575 | 3,314,868 | 3,180,994       |
| Total current assets                         | 4,408,177          | 4,999,632 | 4,947,316 | 4,763,754       |
| Total current liabilities                    | 3,615,939          | 4,674,422 | 4,484,998 | 4,911,611       |
| Total non-current liabilities                | 1,132,297          | 1,157,554 | 738,410   | 136,702         |
| Net current assets (liabilities)             | 792,238            | 325,210   | 462,318   | (147,857)       |
| Net assets                                   | 2,598,397          | 2,586,231 | 3,038,776 | 2,896,435       |
| Equity attributable to owners of the Company | 2,594,292          | 2,559,816 | 3,018,835 | 2,896,435       |

The change in our financial position from net current assets as of December 31, 2017 to net current liabilities as of March 31, 2018 was primarily due to the one-off refinancing of the US\$191.4 million Privatization Syndicated Loan (recorded as current and non-current bank borrowings on our balance sheet as of December 31, 2017) with bank loans (recorded as current bank borrowings on our balance sheet as of March 31, 2018) secured by pledged bank deposits in the first quarter of 2018.

## Summary Combined Statements of Cash Flows

|  | Year Ended December 31, |           |           | Three Months Ended March 31, |             |
|--|-------------------------|-----------|-----------|------------------------------|-------------|
|  | 2015                    | 2016      | 2017      | 2017                         | 2018        |
|  | RMB '000                |           |           | (unaudited)                  | (unaudited) |
| Net cash generated from (used in) operating activities | 327,079                 | 221,784   | 510,417   | (437,434)                    | (136,235)   |
| Net cash used in investing activities                  | (178,077)               | (284,653) | (65,710)  | (142,716)                    | (572,738)   |
| Net cash generated from (used in) financing activities | 210,576                 | 214,100   | (552,516) | 45,820                       | (31,044)    |
| Cash and cash equivalents at beginning of year/period  | 1,018,879               | 1,409,205 | 1,583,120 | 1,583,120                    | 1,450,588   |
| Cash and cash equivalents at the end of year/period    | 1,409,205               | 1,583,120 | 1,450,588 | 995,938                      | 697,085     |

Our operating cash flow improved in the three months ended March 31, 2018 compared to the same period in 2017. However, we incurred net cash used in operating activities of RMB136.2 million in the three months ended March 31, 2018, primarily as a result of seasonality. Due to telecom operators' project management schedules, we typically experience faster payment settlement process with our telecom operator customers in the second half of the year, resulting in seasonal fluctuations in our operating cash flows.

The decrease in cash and cash equivalents, and the net cash used in investing activities in the three months ended March 31, 2018 was primarily due to the one-off refinancing of the US\$191.4

## SUMMARY

million Privatization Syndicated Loan, which was secured by equity interests, with bank loans (recorded as current bank borrowings on our balance sheet) secured by pledged bank deposits in the first quarter of 2018.

### Working Capital Sufficiency

Our available financial resources include: (i) cash flow from operating activities, (ii) cash and cash equivalents, which amounted to RMB633.4 million as of June 30, 2018, (iii) pledged bank deposits securing our bank borrowings, primarily the refinanced Privatization Syndicated Loan, amounting to RMB889.0 million as of June 30, 2018, which will be released as the corresponding bank borrowings get repaid, (iv) committed and unutilized banking facilities, which amounted to RMB646.4 million as of June 30, 2018, and (v) the estimated net [REDACTED] from the issuance of new Shares in the [REDACTED]. Taking into account these financial resources available to us, our Directors are of the view that we have sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this [REDACTED]. After due consideration and discussion with the Company’s management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditure, the Joint Sponsors concur with the view of our Directors.

### KEY FINANCIAL RATIOS

The following table sets forth key financial ratios as of the dates and for the periods indicated:

|  | For the year ended<br>or as of<br>December 31, |       |       | For the three months<br>ended or as of<br>March 31, |
|--|--|-------|-------|---|
|  | 2015   | 2016  | 2017  | 2018  |
| EBITDA margin from continuing operations <sup>(1)</sup>                              | 12.6%  | 7.6%  | 12.1% | 11.7%   |
| Adjusted EBITDA margin from continuing operations <sup>(2)</sup>                     | 13.1%  | 8.3%  | 14.2% | 14.8%   |
| Profit margin for the year/period from continuing operations <sup>(3)</sup>          | 6.5%   | 1.5%  | 6.8%  | 7.5%  |
| Adjusted profit margin for the year/period from continuing operations <sup>(4)</sup> | 9.9%   | 5.2%  | 11.1% | 12.7%   |
| Gearing ratio <sup>(5)</sup>   | 55.7%  | 88.0% | 57.5% | 58.8%   |

(1) EBITDA margin from continuing operations is calculated by dividing EBITDA from continuing operations (which is profit (loss) before tax from continuing operations plus finance costs and depreciation and amortization expenses) by revenue and multiplied by 100%

(2) Adjusted EBITDA margin from continuing operations is calculated by dividing adjusted EBITDA from continuing operations (EBITDA from continuing operations adjusted by adding back share-based compensation and one-off [REDACTED]) by revenue and multiplied by 100%

(3) Profit margin for the year/period from continuing operations is calculated by dividing profit for the year/period from continuing operations by revenue and multiplied by 100%

(4) Adjusted profit for the year/period from continuing operations margin is calculated by dividing adjusted profit for the year/period from continuing operations (profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] and interest expenses for the Privatization Syndicated Loan) by revenue and multiplied by 100%

(5) Gearing ratio is calculated by dividing total debt by total equity and multiplied by 100%

For further details of our key financial ratios, see “Financial Information—Key Financial Ratios” of this [REDACTED].

### OUR SHAREHOLDING STRUCTURE

#### The Controlling Shareholders

As of the Latest Practicable Date, the CITIC Capital Entities, through Skipper Investment Limited as the immediate Shareholder of the Company, were interested in approximately 34.06% of the issued Shares of our Company. Immediately after completion of the Share Subdivision and the [REDACTED] (without taking into any Shares that may be issued pursuant to the [REDACTED] and without taking into account any Shares to be issued pursuant to the exercise of the outstanding share options granted under the [REDACTED] Share Option Scheme and upon vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme), the CITIC Capital Entities will be entitled



## SUMMARY

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to control approximately [REDACTED] of the total number of issued Shares of our Company through Skipper Investment Limited. As such, immediately after the [REDACTED], the CITIC Capital Entities will no longer be our controlling shareholders. However, Skipper Investment Limited will remain as our single largest Shareholder.

### Employee Share Incentive Plans

We have adopted the [REDACTED] Share Option Scheme and the [REDACTED] RSA Scheme on June 26, 2018, in order to incentivize and reward our employees for the contribution to our Group and to assume certain outstanding share options and RSAs previously granted by Holdco Cayman.

As of the Latest Practicable Date, the number of Shares underlying the outstanding and unexercised share options granted under the [REDACTED] Share Option Scheme amounts to 15,049,232 Shares (being 120,393,856 Shares after completion of the Share Subdivision) representing approximately [REDACTED] of the issued Shares immediately following completion of the Share Subdivision and the [REDACTED] and assuming the [REDACTED] is not exercised, and the outstanding share options granted under the [REDACTED] Share Option Scheme remain unexercised and the outstanding RSAs granted under the [REDACTED] RSA Scheme remain unvested. Such 15,049,232 share options are held by 2,064 grantees. As of the Latest Practicable Date, the number of Shares underlying the outstanding and unvested RSAs granted under the [REDACTED] RSA Scheme amounts to 2,095,115 Shares (being 16,720,920 Shares after completion of the Share Subdivision), representing approximately [REDACTED] of the issued Shares immediately following completion of the Share Subdivision and the [REDACTED] and assuming the [REDACTED] is not exercised, the outstanding share options granted under the [REDACTED] Share Option Scheme remain unexercised and the outstanding RSAs granted under the [REDACTED] RSA Scheme remain unvested. Such 2,095,115 RSAs are held by 962 grantees. We are required to recognize share-based compensation expenses in respect of the share options granted under the [REDACTED] Share Option Scheme and the RSAs granted under the [REDACTED] RSA Scheme. We expect to recognize a significant amount of employee benefit expenses in our combined financial statement in respect of such share options and RSAs, particularly in 2018 and 2019. Please see the sections headed “Statutory and General Information—D. [REDACTED] Share Option Scheme” and “Statutory and General Information — E. [REDACTED] RSA Scheme” in Appendix IV to this [REDACTED].

### FROST & SULLIVAN REPORT

Certain information included in the sections headed “Business”, “Industry Overview” and “Financial Information” is quoted from the Frost & Sullivan Report. The Frost & Sullivan Report was prepared based on the following assumptions: (i) the social, economic and political environment of the PRC is likely to remain stable in the forecast period; and (ii) related industry key drivers are likely to continue to drive the market in the forecast period.

### RECENT DEVELOPMENTS

Our Directors confirm that up to the date of this [REDACTED], there has been no material adverse change in our financial or trading position or prospects since March 31, 2018, and there is no event since March 31, 2018 which would materially affect the financial information as set out in Appendix I and Appendix IA to this [REDACTED].

### [REDACTED]

Based on the mid-point of the indicative [REDACTED] and assuming the [REDACTED] is not exercised, our total [REDACTED] is expected to be approximately RMB[REDACTED]. We incurred approximately RMB[REDACTED] of [REDACTED] in 2017, among which approximately RMB[REDACTED] was recognized as [REDACTED] in our combined statements of profit or loss and other comprehensive (expense) income and approximately RMB[REDACTED] was

## SUMMARY

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capitalized. We expect to incur an aggregate of approximately RMB[REDACTED] of [REDACTED] (based on the mid-point of the indicative [REDACTED] and assuming the [REDACTED] is not exercised, and including, among others, [REDACTED] and the discretionary incentive fee, if any) in 2018, among which approximately RMB[REDACTED] will be recognized as [REDACTED] in our combined statements of profit or loss and other comprehensive (expense) income and approximately RMB[REDACTED] will be capitalized. The [REDACTED] above are the latest practicable estimate and are provided for reference only, and actual amounts may differ. We do not expect the additional [REDACTED] to have a material impact on our results of operations.

[REDACTED]

### FUTURE PLANS AND [REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] (after deducting [REDACTED] and other estimated expenses paid and payable by us in the [REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, and that the [REDACTED] is not exercised. We intend to use the [REDACTED] of the [REDACTED] for the following purposes:

- (i) approximately [REDACTED] will be used to enhance our R&D capabilities and increase our presence and market share in the emerging data-driven operation services, IoT and intelligent network industry sectors;
- (ii) approximately [REDACTED] will be used to repay certain of our outstanding bank loans;
- (iii) approximately [REDACTED] will be used to selectively pursue strategic investments and acquisitions; and
- (iv) the remaining approximately [REDACTED] will be used for our working capital and other general corporate purposes.

Please see the section headed “Future Plans and [REDACTED]” for further details.

### DIVIDEND POLICY

In 2015, AsiaInfo Technologies HK declared a dividend of approximately RMB2.2 billion to its immediate holding company, AsiaInfo Holdings. Approximately RMB1.6 billion of such dividend was settled during the Track Record Period, by (i) transferring our investment in Bonson BVI to AsiaInfo

## SUMMARY

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Holdings, (ii) offsetting a portion of the amounts due from AsiaInfo Holdings from its transfer of the Privatization Syndicated Loan to us, and (iii) making a cash dividend payment of RMB0.4 billion to AsiaInfo Holdings in 2016. The remaining balance of RMB0.6 billion was offset against amounts due from related parties on our balance sheet as of December 31, 2016 and 2017. We did not declare or pay any other dividend during the Track Record Period. In May 2018, we declared a dividend in the amount of approximately RMB0.7 billion to AsiaInfo Holdings, which was offset against amounts due from AsiaInfo Holdings.

We do not currently have a fixed dividend payout ratio. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, future development requirements and other factors that our Directors may consider relevant. Our Articles and any other applicable laws and regulations may also be considered relevant.

### RISK FACTORS

There are certain risks involved in our operations and in connection with the [REDACTED], many of which are beyond our control. These risks can be categorized into: (i) risks relating to our industry and business, (ii) risks relating to conducting operations in the PRC and (iii) risks relating to the [REDACTED] and our Shares. We believe the most significant risks we face include:

- our dependence on Chinese telecom operators subjects us to events that may cause material fluctuations or declines in our revenues;
- the growth of our business is significantly dependent on policies related to the telecom industry in China;
- if we are unable to execute our growth strategies effectively, our business and prospects may be materially and adversely affected;
- if we fail to timely and cost-effectively develop new software products and services and enhance existing ones to meet the evolving requirements of existing and new customers, our business operations could be materially and adversely affected;
- our business could be materially and adversely affected if we fail to anticipate or adapt to changes in evolving industry standards and technologies;
- the markets in which we operate are competitive, and we may not be able to compete successfully against our competitors, grow at a rate comparable to our growth rate in the past or successfully promote, maintain or enhance the awareness of our brand; and
- allotment and issue of Shares upon the exercise of the share options granted under the [REDACTED] Share Option Scheme and upon the vesting of the RSAs granted under the [REDACTED] RSA Scheme will result in the dilution of your shareholding in our Company and a significant amount of employee benefit expenses.

A detailed discussion of all the risk factors involved are set out in the section headed “Risk Factors” in this [REDACTED]. You should read the whole section carefully before you decide to invest in the [REDACTED].

### NON-COMPLIANCE

Except for the non-compliances disclosed below, we are advised by our PRC Legal Advisor that, during the Track Record Period and as of the Latest Practicable Date, we had complied with relevant PRC laws and regulations in all material aspects.

During the Track Record Period, we did not make full social insurance for our employees. As advised by our PRC Legal Advisor, the likelihood that we would be required by the relevant authorities to pay any shortfall for social insurance contribution is low, and the likelihood that we would be subject to material administrative penalties is very remote. See “Business—Legal Proceedings and Compliance—Social Insurance Contribution Shortfalls” for more details.



## DEFINITIONS

*In this [REDACTED], unless the context otherwise requires, the following terms shall have the meanings set out below. Certain technical terms are explained in the section headed “Glossary of Technical Terms”.*

- “affiliate(s)” any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
- [REDACTED]
- “Arrangement” Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》)
- “Articles” or “Articles of Association” the amended and restated articles of association of our Company, adopted on [●], 2018 which shall become effective upon registration by the Registrar of Corporate Affairs in the BVI prior to the [REDACTED], and as amended from time to time, a summary of which is set out in Appendix III to this [REDACTED]
- “AsiaInfo Big Data” AsiaInfo Big Data Limited, a BVI business company incorporated in the BVI on June 6, 2014, formerly known as AsiaInfo Investment Limited, which is an indirect wholly-owned subsidiary of the Company
- “AsiaInfo Big Data HK” AsiaInfo Big Data (H.K.) Limited (亞信大數據(香港)有限公司), a limited liability company incorporated in Hong Kong on June 20, 2014, formerly known as AsiaInfo Digital (H.K.) Limited (亞信數據(香港)有限公司), which is an indirect wholly-owned subsidiary of the Company
- “AsiaInfo China” AsiaInfo Technologies (China), Inc. (亞信科技(中國)有限公司), formerly known as AsiaInfo Computer Network (Beijing) Co., Ltd. (亞信電腦網絡(北京)有限公司) and AsiaInfo-Linkage Technologies (China), Inc. (亞信聯創科技(中國)有限公司), a wholly foreign-owned enterprise incorporated in the PRC on May 2, 1995, which is an indirect wholly-owned subsidiary of the Company
- “AsiaInfo Cayman” AsiaInfo Cayman Limited, an exempted company with limited liability incorporated in the Cayman Islands on May 5, 2014, which is a direct wholly-owned subsidiary of Parent Cayman

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## DEFINITIONS

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| “AsiaInfo Chengdu”              | AsiaInfo Technologies (Chengdu), Inc. (亞信科技 (成都) 有限公司), a limited liability company incorporated in the PRC on December 31, 2001, which is an indirect non-wholly-owned subsidiary of AsiaInfo Cayman   |
| “AsiaInfo Denmark”              | ASIAINFO DENMARK ApS, a limited liability company incorporated in Denmark on October 11, 2013, which is an indirect wholly-owned subsidiary of PacificInfo  |
| “AsiaInfo Guangzhou Technology” | Guangzhou AsiaInfo Technology Co., Ltd (廣州亞信技術有限公司), a limited liability company incorporated in the PRC on August 11, 2017, which is an indirect wholly-owned subsidiary of the Company  |
| “AsiaInfo Hangzhou Cloud”       | Hangzhou AsiaInfo Cloud Information Technologies Limited (杭州亞信雲信息科技有限公司), a limited liability company incorporated in the PRC on February 25, 2007, which is an indirect wholly-owned subsidiary of the Company   |
| “AsiaInfo Hangzhou Software”    | Hangzhou AsiaInfo Software Co., Ltd. (杭州亞信軟件有限公司), a limited liability company incorporated in the PRC on May 15, 2015, which is an indirect wholly-owned subsidiary of the Company   |
| “AsiaInfo Holdings”             | AsiaInfo Holdings, LLC, formerly known as China-U.S. Business Development International, Inc., AsiaInfo Holdings, Inc. and AsiaInfo-Linkage, Inc., a limited liability company incorporated in Dallas, Texas on June 17, 1993, and re-domiciled to Delaware on June 8, 1998, which is the direct subsidiary of Skipper US |
| “AsiaInfo HK”                   | AsiaInfo (H.K.) Limited (香港亞信有限公司), formerly known as AsiaInfo-Linkage (H.K.) Limited (亞信聯創科技(香港)有限公司), a limited liability company incorporated in Hong Kong on November 8, 2010, which is an indirect wholly-owned subsidiary of the Company  |
| “AsiaInfo HK Development”       | AsiaInfo (H.K.) Development Limited (香港亞信發展有限公司), formerly known as Linkage-AsiaInfo (H.K.) Limited (聯創亞信科技(香港)有限公司), a limited liability company incorporated in Hong Kong on January 20, 2011, which is an indirect wholly-owned subsidiary of the Company  |
| “AsiaInfo Hunan Software”       | Hunan AsiaInfo Software Co., Ltd. (湖南亞信軟件有限公司), a limited liability company incorporated in the PRC on April 16, 2015, which is an indirect wholly-owned subsidiary of the Company  |

## DEFINITIONS

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| “AsiaInfo Hungary”          | AsiaInfo (Hungary) Kft., a limited liability company incorporated in Hungary on November 12, 2013, which is an indirect wholly-owned subsidiary of PacificInfo   |
| “AsiaInfo International”    | AsiaInfo International Investment Limited, a BVI business company incorporated in BVI on July 24, 2014, which is a wholly-owned subsidiary of PacificInfo  |
| “AsiaInfo Malaysia”         | AsiaInfo (M) SDN. BHD., a limited liability company incorporated in Malaysia on April 11, 2011, formerly known as AsiaInfo Linkage (M) SDN. BHD., which is an indirect wholly-owned subsidiary of PacificInfo  |
| “AsiaInfo Nanjing”          | AsiaInfo Technologies (Nanjing) Inc. (亞信科技(南京)有限公司), formerly known as Linkage Technology (Nanjing) Co., Ltd. (聯創科技(南京)有限公司), Linkage AsiaInfo Technologies (Nanjing), Inc. (聯創亞信科技(南京)有限公司), a wholly foreign-owned enterprise incorporated in the PRC on February 16, 2004, which is an indirect wholly-owned subsidiary of the Company                                    |
| “AsiaInfo Nanjing Software” | Nanjing AsiaInfo Software Co., Ltd. (南京亞信軟件有限公司), a limited liability company incorporated in the PRC on February 6, 2015, which is an indirect wholly-owned subsidiary of the Company   |
| “AsiaInfo Securities”       | AsiaInfo Security Limited, a BVI business company incorporated in the BVI on July 11, 2014, which is a non-wholly owned subsidiary of AsiaInfo Cayman  |
| “AsiaInfo Securities Group” | AsiaInfo Securities and its subsidiaries   |
| “AsiaInfo Services”         | AsiaInfo Services Inc., formerly a limited liability company incorporated in Texas on October 21, 1993 as a wholly-owned subsidiary of AsiaInfo Holdings, which was dissolved on May 24, 1999  |
| “AsiaInfo Singapore”        | ASIAINFO INTERNATIONAL PTE. LTD., a private company limited by shares incorporated in Singapore on September 11, 2009, which is a direct subsidiary of AsiaInfo International  |
| “AsiaInfo Technologies HK”  | AsiaInfo Technologies (H.K.) Limited (香港亞信科技有限公司) (formerly known as RIGHT START DEVELOPMENTS LIMITED (權利發展有限公司), AsiaInfo (H.K.) Systems Co. Limited (香港亞信系統有限公司) and AsiaInfo-Linkage (H.K.) Systems Co., Limited (香港亞信聯創系統有限公司), a company incorporated in Hong Kong with limited liability on January 20, 1997, which is a direct wholly-owned subsidiary of the Company |

## DEFINITIONS

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|-----------------------------------|---|
| “AsiaInfo Thailand”               | ASIAINFO (THAILAND) LIMITED, a juristic person incorporated in Thailand on July 19, 2011, which is an indirect non-wholly-owned subsidiary of International HK, held as to 0.0075% by AsiaInfo Malaysia, as to 0.0025% by International HK and as to 99.99% by AsiaInfo Singapore |
| “AsiaInfo UK”                     | ASIAINFO (U.K.) LIMITED, a private company limited by shares incorporated in England on September 16, 2013, which is an indirect wholly-owned subsidiary of PacificInfo   |
| “Banking Ordinance”               | the Banking Ordinance, Chapter 155 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)  |
| “Beijing AsiaInfo Smart Big Data” | Beijing AsiaInfo Smart Big Data Co., Ltd. (北京亞信智慧數據科技有限公司), a wholly foreign-owned enterprise incorporated in the PRC on August 21, 2014, which is an indirect wholly-owned subsidiary of our Company   |
| “Beijing Shangxin Yitong”         | Beijing Shangxin Yitong Information Technology Co., Ltd. (北京尚信易通信息技術有限公司), a limited liability company incorporated in the PRC on March 25, 2009, which is an indirect wholly-owned subsidiary of the Company   |
| “Board” or “Board of Directors”   | the board of directors of our Company   |
| “Bonson BVI”                      | BONSON INFORMATION TECHNOLOGY LIMITED, an International Business company incorporated in the BVI on September 10, 1999, which is a wholly-owned subsidiary of Innovation HK   |
| “business day”                    | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business   |
| “BVI”                             | the British Virgin Islands  |
| “BVI Business Companies Act”      | the BVI Business Companies Act, 2004, as amended, supplemented or otherwise modified from time to time  |
| “CAGR”                            | compound annual growth rate   |

[REDACTED]

## DEFINITIONS

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### [REDACTED]

|   |   |
|---|---|
| “China” or “PRC”  | the People’s Republic of China excluding, for the purpose of this [REDACTED], Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan                        |
| “China Mobile”  | China Mobile Communications Corporation and its subsidiaries and branches   |
| “China Telecom”   | China Telecommunications Corporation and its subsidiaries and branches  |
| “China Tower”   | China Tower Corporation Limited and its branches  |
| “China Unicom”  | China United Network Communications Group Co., Ltd. and its subsidiaries and branches   |
| “CITIC Capital Entities”  | Skipper Investment Limited, Power Joy, CITIC Capital China Partners II, L.P., CCP II GP, Ltd., CCP LTD, CITIC Capital Partners Limited and CITIC Capital Holdings Limited     |
| “Circular 698”  | Notice on Strengthening the Administration of Enterprise Income Tax Concerning Proceeds from Equity Transfers by Non-Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) |
| “Circular 7”  | Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《國家稅務總局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》)               |
| “Companies Ordinance”   | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time  |
| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time   |

## DEFINITIONS

|                             |   |
|-----------------------------|---|
| “Company” or “our Company”  | AsiaInfo Technologies Limited (亞信科技控股有限公司), formerly known as Linkage Technologies Investment Limited, AsiaInfo-Linkage Technologies Investment Limited, AsiaInfo Technologies Investment Limited, AsiaInfo Technologies Limited (亞信科技有限公司), and AsiaInfo Technologies Limited (亞信科技控股有限公司), an international business company incorporated in the BVI on July 15, 2003 |
| “Controlling Shareholders”  | has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to the CITIC Capital Entities, which will no longer be our controlling shareholder immediately after the [REDACTED]  |
| “CSRC”                      | China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the national securities market in China   |
| “Deed of Non-competition”   | the deed of non-compete undertaking entered into by Skipper Investment Limited on July 5, 2018 in favor of the Group, as described more particularly in the section headed “Relationship with the Controlling Shareholders”   |
| “Director(s)”               | the director(s) of our Company  |
| “Dr. Tian”                  | Dr. TIAN Suning (田溯寧博士), founder, chairman and an executive Director of our Company   |
| “E-public Service Business” | refers to the business of providing software products and services that enable governmental bodies and public institutions to provide e-public services such as smart city and e-government services, which form part of our discontinued operations during the Track Record Period   |
| “EIT”                       | enterprise income tax   |
| “EIT Law”                   | the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》)   |
| “EITIR”                     | Enterprise Income Tax Implementation Regulations of the PRC (《中華人民共和國企業所得稅法實施條例》)   |
| “Excluded Group”            | the AsiaInfo Securities Group and Guangzhou AsiaInfo Cloud Group, collectively  |

[REDACTED]

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## DEFINITIONS

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[REDACTED]

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|---|---|
| “Group”, “our Group”, “we”, “our” or “us” | our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)                  |
| “Guangzhou AsiaInfo Cloud”                | Guangzhou AsiaInfo Cloud Bigdata Co., Ltd (廣州亞信雲數據有限公司), a limited liability company incorporated in the PRC on November 1, 2017  |
| “Guangzhou AsiaInfo Cloud Group”          | Guangzhou AsiaInfo Cloud and its subsidiaries   |
| “Guangzhou Zihui Online”                  | Guangzhou Zihui Online Technology Co., Ltd (廣州智匯在線科技有限公司), formerly known as Guangzhou AsiaInfo Big Data Co., Ltd. (廣州亞信數據有限公司) a limited liability company incorporated in the PRC on October 19, 2016, which is an indirect wholly-owned subsidiary of the Company  |
| “HK\$”                                    | Hong Kong dollars, the lawful currency of Hong Kong   |
| “HK AsiaInfo Technologies”                | Hong Kong AsiaInfo Technologies Limited (香港亞信技術有限公司), formerly known as Hong Kong Linkage Technology Limited (香港聯創科技有限公司) and Hong Kong AsiaInfo-Linkage Technology Limited (香港亞信聯創科技有限公司), a limited liability company incorporated in Hong Kong on November 25, 1998, which is an indirect wholly-owned subsidiary of the Company |
| “HKFRS”                                   | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants   |
|   | [REDACTED]  |
| “Holdco Cayman”                           | Skipper Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on August 24, 2012, and was an indirect holding company of our Company prior to the commencement of the Reorganization  |
| “Hong Kong” or “HK”                       | the Hong Kong Special Administrative Region of the PRC  |

## DEFINITIONS

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### [REDACTED]

|                                |  |
|--------------------------------|--|
| “independent third party(ies)” | person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons as defined under the Listing Rules |
| “Innovation BVI”               | AsiaInfo Innovation Limited, formerly known as BIZ Century Holdings Limited, a BVI business company incorporated in the BVI on May 8, 2015, which is a direct wholly-owned subsidiary of AsiaInfo Cayman   |
| “Innovation HK”                | AsiaInfo Innovation (H.K.) Limited (亞信創新 (香港) 有限公司), a limited liability company incorporated in Hong Kong on September 7, 2015, which is an indirect wholly-owned subsidiary of AsiaInfo Cayman   |
| “International Business”       | refers to the Group’s software business serving telecom operators headquartered in Southeast Asia, Europe and other countries outside the PRC during the Track Record Period   |
| “International HK”             | AsiaInfo International (H.K.) Limited (亞信科技國際 (香港) 有限公司), a limited liability company incorporated in Hong Kong on August 5, 2014 which is an indirect wholly-owned subsidiary of PacificInfo  |



## DEFINITIONS

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[REDACTED]

|                           |  |
|---------------------------|--|
| “Joint Sponsors”          | CLSA Capital Markets Limited and Citigroup Global Markets Asia Limited   |
| “large enterprise”        | businesses with annual revenue of RMB1 billion or above  |
| “Latest Practicable Date” | August 10, 2018, being the latest practicable date prior to the printing of this [REDACTED] for the purpose of ascertaining certain information contained in this [REDACTED] |
| “Linkage”                 | Linkage Technologies International Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on February 24, 2004                      |

## DEFINITIONS

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|---|---|
| “Linkage Merger”                            | the acquisition of 100% shareholding in the Company by AsiaInfo Holdings, directly or through its subsidiaries, from Linkage pursuant to the Linkage Merger Agreement   |
| “Linkage Merger Agreement”                  | the business combination agreement entered into by AsiaInfo Holdings and Linkage on December 4, 2009  |
|   | <b>[REDACTED]</b>   |
| “Listing Rules”                             | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time  |
| “M&A Rules”                                 | the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly promulgated by MOFCOM, SAT, SAIC, CSRC, SAFE and SASAC on August 8, 2006 and became effective on September 8, 2006 and was amended on June 22, 2009  |
| “Memorandum” or “Memorandum of Association” | the amended and restated memorandum of association of our Company, adopted on [●] 2018 which shall become effective upon registration by the Registrar of Corporate Affairs in the BVI prior to the <b>[REDACTED]</b> and as amended from time to time, a summary of which is set out in Appendix III to this <b>[REDACTED]</b> |
| “Merger”                                    | the merger between AsiaInfo Holdings and Merger Sub   |
| “Merger Agreement”                          | the agreement and plan of merger entered into by and among AsiaInfo Holdings, Merger Sub, Parent Cayman and Holdco Cayman on May 12, 2013   |
| “Merger Consideration”                      | the consideration of the Merger, being US\$12.00 per share of the common stock of AsiaInfo Holdings   |
| “Merger Sub”                                | Skipper Acquisition Corporation, a limited liability company incorporated in Delaware on February 7, 2013, which was merged with and into AsiaInfo Holdings on January 15, 2014 and dissolved   |

## DEFINITIONS

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|---|---|
| “MIIT”                                      | Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)   |
| “MOF”                                       | Ministry of Finance of the PRC (中華人民共和國財政部)   |
| “MOFCOM”                                    | Ministry of Commerce of the PRC (中華人民共和國商務部)  |
| “MST”                                       | Ministry of Science and Technology of the People’s Republic of China (中華人民共和國科學技術部)   |
| “municipal companies”                       | municipal-level subsidiaries and/or branches of China Mobile, China Unicom, China Telecom and China Tower   |
| “Mr. Ding”                                  | Mr. Ding Jian (丁健先生), an executive Director of our Company  |
| “NASDAQ”                                    | National Association of Securities Dealers Automated Quotations Global Market of the United States of America   |
| “NCA”                                       | National Copyright Administration of the PRC (中華人民共和國國家版權局)   |
| “NCA No. 1 Order”                           | Computer Software Copyright Registration Measures (Order of the National Copyright Administration of the PRC (No. 1)) (《計算機軟件著作權登記辦法》(國家版權局令第1號))   |
| “NDRC”                                      | National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)   |
| “Network Security Business”                 | refers to the Group’s business of providing network security related products and services, which the Group conducted in-house primarily through AsiaInfo Chengdu before late 2015, and outsourced to AsiaInfo Chengdu after late 2015                                |
| “Network Security Transitional Arrangement” | refers to the Group’s transitional arrangement of entering into project development contracts for the provision of network security software products and services with customers and outsourcing all tasks under these contracts to AsiaInfo Chengdu since late 2015 |
| “New Media”                                 | New Media China Investment I Limited, an international business company incorporated in the BVI on January 4, 2005, which is a direct wholly-owned subsidiary of Mr. Ding   |
| “No.18 Policy”                              | Several Policies on Encouraging the Development of Software and Integrated Circuit (IC) Industries (《鼓勵軟件產業和集成電路產業發展的若干政策》)   |

## DEFINITIONS

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|--------------------|---|
| “No. 2413 Measure” | Trial Measures for the Administration over the Certification of Key Software Enterprises and Integrated Circuit (IC) Design Enterprises under State Planned Layout (《國家規劃佈局內重點軟件企業和集成電路設計企業認定管理試行辦法》)           |
| “No. 27 Decision”  | Decision of the State Council on Canceling Non-administrative Licensing Examination and Approval Items (Guo Fa [2015] No. 27) (《國務院關於取消非行政許可審批事項的決定》(國發[2015]27號))  |
| “No. 32 Measure”   | Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》)   |
| “No.4 Policy”      | Several Policies on Further Encouraging the Development of the Software and Integrated Circular (IC) Industries (《進一步鼓勵軟件產業和集成電路產業發展的若干政策》)   |
| “NPC”              | National People’s Congress of the PRC (中華人民共和國全國人民代表大會)   |
|                    | <b>[REDACTED]</b>   |
| “PacificInfo”      | PACIFICINFO LIMITED, a BVI business company incorporated in the BVI on September 21, 2006, which is a direct wholly-owned subsidiary of Dr. Tian  |
| “Parent Cayman”    | Skipper Limited, an exempted company with limited liability incorporated in the Cayman Islands on August 27, 2012, which is a wholly-owned subsidiary of Holdco Cayman, the sole shareholder of AsiaInfo Cayman |

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## DEFINITIONS

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|----------------------------------|--|
| “PBOC”                           | People’s Bank of China (中國人民銀行)  |
| “Power Joy”                      | Power Joy (Cayman) Limited, an exempted company with limited liability incorporated in the Cayman Islands on January 4, 2011, which is a direct wholly-owned subsidiary of CITIC Capital China Partners II, L.P.   |
| “PRC Government” or “State”      | the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them  |
| “PRC Legal Advisor”              | Han Kun Law Offices  |
| “[REDACTED] RSA Scheme”          | the [REDACTED] restricted share award scheme for the grant of RSAs to eligible participants approved and adopted pursuant to an unanimous written resolutions of the Shareholders passed by our Shareholders on June 26, 2018  |
| “[REDACTED] Share Option Scheme” | the [REDACTED] share option scheme for the grant of share options to eligible participants approved and adopted pursuant to an unanimous written resolutions of the Shareholders passed by our Shareholders on June 26, 2018   |
|                                  | <b>[REDACTED]</b>  |
| “Privatization”                  | the delisting of AsiaInfo Holdings from NASDAQ upon completion of the Merger   |
| “Privatization Sponsors”         | CITIC Capital (Tianjin) Investment Management Limited Partnership ( 中信資本 (天津) 股權投資合夥企業 (有限合夥) ), CPEChina Fund, L.P., Al Gharrafa Investment Company, Ellington Investments Pte. Ltd., AlpInvest Partners Co-Investments 2011 II C.V., AlpInvest Partners Co-Investments 2012 I C.V., AlpInvest Partners Co-Investments 2012 II C.V., CBC TMT III Limited and InnoValue Capital Ltd. |
| “Privatization Syndicated Loan”  | refers to the loan borrowed in connection with the Privatization, which was transferred to our Group in December 2015 and refinanced in 2018   |

## DEFINITIONS

|                         |  |
|-------------------------|--|
| “Province”              | includes provinces, provincial-level municipalities and autonomous regions of China  |
| “Provincial companies”  | Provincial and special administrative region-level subsidiaries and/or branches of China Mobile, China Unicom, China Telecom and China Tower   |
| “Pushdown Allotment”    | the allotment of Shares in our Company to all of the then shareholders of Holdco Cayman as part of the Reorganization, details of which are set out in the section headed “History, Development and Reorganization—Reorganization”                   |
| “QIB”                   | a qualified institutional buyer within the meaning of Rule 144A  |
| “Regulation S”          | Regulation S under the U.S. Securities Act   |
| “Relevant Shareholders” | the Shareholders of the Company immediately after Pushdown Allotment (with the exception of Mr. Wu Jun), who entered into a shareholders’ agreement dated June 26, 2018  |
| “Reorganization”        | the reorganization arrangements undertaken by the Group in preparation for the [REDACTED], details of which are set out in the section headed “History, Development and Reorganization—Reorganization” in this [REDACTED]                            |
| “RMB” or “Renminbi”     | Renminbi, the lawful currency of the PRC   |
| “Rollover Agreement”    | the rollover agreement entered into by, among others, the Rollover Stockholders, Holdco Cayman and Parent Cayman on May 12, 2013   |
| “Rollover Stockholders” | Dr. Tian, Ms. Jean Qin Kong, PacificInfo, Mr. Ding, New Media and Mr. Steve Zhang  |
| “RSA”                   | restricted share award   |
| “Rule 144A”             | Rule 144A under the U.S. Securities Act  |
| “SAFE”                  | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)   |
| “SAFE Circular 37”      | Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) |

## DEFINITIONS

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|----------------------------|---|
| “SAFE Circular 75”         | Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in the Financing and Return on Investment Conducted by PRC Residents via Special Purpose Vehicles outside the PRC (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》)             |
| “SAIC”                     | State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)  |
| “SASAC”                    | State-owned Assets Supervision and Administration Commission of the State Council of the PRC (國務院國有資產監督管理委員會)   |
| “SAT”                      | State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)   |
| “SAT Circular 37”          | Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》)  |
| “SCNPC”                    | Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)  |
| “SEC”                      | the U.S. Securities Exchange Commission   |
| “SFC”                      | the Securities and Futures Commission of Hong Kong  |
| “SFO”                      | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time   |
| “Shanghai AsiaInfo Online” | Shanghai AsiaInfo Online Technology Limited (上海亞信在線科技有限公司), formerly known as Shanghai Xinjia Information Technology Co., Ltd. (上海信迦信息科技有限公司), a limited liability company incorporated in the PRC on September 25, 2008, which is an indirect wholly-owned subsidiary of our Company |
| “Shareholder(s)”           | holder(s) of Share(s)   |
| “Share(s)”                 | ordinary share(s) of our Company  |
| “Share Subdivision”        | the share subdivision referred to in the paragraph headed “A. Further Information About Our Group—3. Resolutions of our Shareholders” in Appendix IV to this [REDACTED]   |
| “Shareholders’ Agreement”  | the shareholders’ agreement entered into between the Company and Relevant Shareholders on June 26, 2018   |

## DEFINITIONS

|                         |   |
|-------------------------|---|
| “Skipper US”            | Skipper Parent (US), LLC, a limited liability company incorporated in State of Delaware on April 29, 2015, which is a wholly-owned subsidiary of Parent Cayman  |
| “Software BVI”          | AsiaInfo Software Limited, a BVI business company incorporated in the BVI on August 28, 2014, which is an indirect non-wholly-owned subsidiary of AsiaInfo Cayman, held as to 88% by Innovation BVI and as to 12% by Excellent Universal Limited  |
| “Software Enterprise”   | has the meaning ascribed to it under <i>Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries</i> (《進一步鼓勵軟件產業和集成電路產業發展的若干政策》) promulgated by the State Council and other relevant PRC rules and regulations and is subject to preferential tax treatment of PRC enterprise income tax and value-added tax |
| “Specialized companies” | subsidiaries and/or branches of China Mobile, China Unicom, China Telecom and China Tower focusing on specific operational aspects or customer groups   |
| “SPVI”                  | AsiaInfo Resolute Limited I, an exempted company with limited liability incorporated in the Cayman Islands on April 13, 2018, being the special purpose vehicle of Trust I  |
| “SPVII”                 | AsiaInfo Resolute Limited II, an exempted company with limited liability incorporated in the Cayman Islands on April 18, 2018, being the special purpose vehicle of Trust II  |
|                         | <b>[REDACTED]</b>   |
| “State Council”         | the PRC State Council (中華人民共和國國務院)  |
| “Stock Exchange”        | The Stock Exchange of Hong Kong Limited   |
| “Stock Option Rules”    | Circular of the SAFE on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知》)  |
| “Takeovers Code”        | the Code on Takeovers and Mergers and Share Buy-backs, as published by the SFC (as amended, supplemented or otherwise modified from time to time)   |
| “telecom operators”     | China Mobile, China Unicom and China Telecom’s (i) headquarters, (ii) provincial subsidiaries or branches, (iii) municipal subsidiaries or branches, (iv) specialized   |



## DEFINITIONS

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|----------------------------------|--|
|                                  | subsidiaries or branches, and (v) joint venture, China Tower, and its provincial or municipal branches, whom we contract with directly   |
| “Thailand”                       | Kingdom of Thailand  |
| “THB”                            | Thai Baht, the lawful currency of Thailand   |
| “Track Record Period”            | the three financial years of our Company ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018  |
| “Trust I”                        | the Asiainfo Technologies Trust I, established pursuant to a trust deed dated April 9, 2018 executed by Maples Trustee Services (Cayman) Limited as the trustee and the Company as the settlor, which holds certain Shares on behalf of and on trust for certain employees, ex-employees, consultants or ex-consultants of the Group |
| “Trust II”                       | the Asiainfo Technologies Trust II, established pursuant to a trust deed dated May 11, 2018 executed by Maples Trustee Services (Cayman) Limited as the trustee and the Company as the settlor, which holds certain Shares, share options and RSAs on behalf of and on trust for certain members of the management team of the Group |
|                                  | <b>[REDACTED]</b>  |
| “U.S.”, “USA” or “United States” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction   |
| “US\$”, “USD” or “U.S. dollars”  | United States dollars, the lawful currency of the United States  |
| “U.S. Securities Act”            | the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder  |
| “VAT Pilot Program”              | Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改征增值稅試點方案》)  |

**[REDACTED]**

## DEFINITIONS

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[REDACTED]

In this [REDACTED], the terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this [REDACTED] and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only.

## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains terms used in this [REDACTED] as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.*

|   |   |
|---|---|
| “4G”                                    | The fourth-generation of mobile telecommunications technology, applied in amended mobile web access, IP telephony, gaming services, high-definition mobile TV, video conferencing, 3D television and cloud computing  |
| “5G”                                    | The proposed fifth-generation of mobile telecommunications technology which has higher speeds and capacity and lower latency than 4G  |
| “advanced analytics technical”          | The autonomous or semi-autonomous examination of data or content using sophisticated techniques and tools, typically beyond those of traditional business intelligence, to discover deeper insights, make predictions, or generate recommendations  |
| “AI” or “artificial intelligence”       | An area of computer science that emphasizes the creation of intelligence machines that work and react like humans   |
| “Apache Hadoop”                         | An open-source software framework written in Java for distributed storage and distributed processing of very large data sets on computer clusters built from commodity hardware   |
| “application” or “application software” | A computer program designed to perform a group of coordinated functions, tasks or activities for the benefit of the user  |
| “big data”                              | Data sets that are so big and complex that traditional data-processing application software are inadequate to deal with them  |
| “BSS”                                   | Business support systems, used for the management of customer information, customer business and service processes and customer related service materials and resources, often used together with OSS to form end-to-end comprehensive business and operation management systems for the telecom industry |
| “Capability Maturity Model Integration” | A world-class process improvement appraisal program administered by Carnegie Mellon University  |
| “cloud computing”                       | Internet-based computing where shared resources, data and information are provided to computers and other devices on-demand   |

## GLOSSARY OF TECHNICAL TERMS

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|                               |  |
|-------------------------------|--|
| “CMMI Level 5”                | International standard for measurement of Software Capability Maturity Model (SW-CMM), CMMI Level 5 represents the highest level   |
| “CRM”                         | Customer relationship management software used to manage a company’s interaction with current and further customers  |
| “Deep learning”               | Part of a broader family of machine learning methods based on learning data representations, as opposed to task-specific algorithms. Learning can be supervised, semi-supervised or unsupervised   |
| “IaaS-PaaS-SaaS”              | Infrastructure-as-a-service, Platform-as-a-service and Software-as-a-service, the three different layers of cloud computing which sit on top of one another  |
| “IoT” or “Internet of Things” | The network of physical objects—devices, vehicles, buildings and other items—embedded with electronics, software, sensors and network connectivity that enables these objects to collect and exchange data   |
| “Internet of Vehicles”        | The network of vehicles embedded with electronics, software, sensors and network connectivity that enables them to collect and exchange data   |
| “ISO 27001”                   | The most commonly accepted international standards for information security management systems, which demonstrates that we have established a comprehensive information security management system   |
| “ISO9001: 2015”               | Internationally and domestically accepted quality management system standards. An organization needs to demonstrate its ability to consistently provide products that meets customer and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of that system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements |
| “IT”                          | Information technology, the application of computers and telecommunications equipment to store, retrieve, transmit and manipulate data   |

## GLOSSARY OF TECHNICAL TERMS

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| “machine learning”                          | A subset of artificial intelligence in the field of computer science that often uses statistical techniques to gives computers the ability to “learn” with data, without being explicitly programmed  |
| “microservices”                             | A software architecture style in which complex applications are composed of small, independent processes, which facilitates a modular approach to system building   |
| “middleware”                                | Computer software that provides services to application software beyond those available from the operating system   |
| “mobile virtual network operator” or “MVNO” | A wireless communications service provider that does not own the wireless network infrastructure over which it provides services to its customers.  |
| “NFV”                                       | Network functions virtualization, a network architecture concept that uses the technologies of IT virtualization to virtualize entire classes of network node functions into building blocks that may connect, or chain together, to create communication services  |
| “on-premise delivery model”                 | A software delivery model where the software is installed and operated on computers on the customer’s premises  |
| “open source”                               | A development model that promotes universal access via a free license to a product’s design or blueprint, and universal redistribution of that design or blueprint, including subsequent improvement to it by anyone  |
| “OSS”                                       | Operations support systems, a collective term for the software solutions telecom operators use to support their network operations, often used together with BSS to support various end-to-end telecommunications services  |
| “platform” or “software platform”           | A basic software (such as an operating system) used as base on which application software can be run  |
| “SaaS”                                      | Software as a service, a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted  |
| “SDN”                                       | Software-defined networking, an approach to computer networking that allows network administrators to programmatically initialize, control, change and manage network behavior dynamically via open interfaces and provide abstraction of lower-level functionality |

## GLOSSARY OF TECHNICAL TERMS

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| “TM forum” | A global industry association that drives collaboration and collective problem-solving to maximize the business success of communication and digital service providers and their ecosystem of suppliers |
| “VoIP”     | Voice over Internet Protocol  |

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## FORWARD-LOOKING STATEMENTS

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### FORWARD-LOOKING STATEMENTS CONTAINED IN THIS [REDACTED] ARE SUBJECT TO RISKS AND UNCERTAINTIES

This [REDACTED] contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this [REDACTED], including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to known and unknown risks, uncertainties and assumptions, including the other risk factors as described in this [REDACTED]. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and future developments, trends and conditions in the markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this [REDACTED], whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this [REDACTED] might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this [REDACTED] are qualified by reference to the cautionary statements in this section.

In this [REDACTED], statements of or references to our intentions or those of the Directors are made as of the date of this [REDACTED]. Any such information may change in light of future developments.

## RISK FACTORS

*An investment in our Shares involves various risks. Before investing in us, you should carefully consider all of the information set forth in this [REDACTED], and in particular, the specific risks set out below. Any of the risks and uncertainties described below could have a material adverse effect on our business, financial condition and results of operations or the trading price of the Shares, and could cause you to [REDACTED]. You should pay particular attention to the fact that our Company is incorporated in the BVI and we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Please be cautioned that the risks and uncertainties described below are not exhaustive.*

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risk relating to our business and industry; (ii) risk relating to doing business in China; and (iii) risks relating to our [REDACTED]. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immature could also harm our business, financial condition and operating results. You should consider our business and prospect in light of the challenges we face, including ones discussed in this section.

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

***Our dependence on Chinese telecom operators subjects us to events that may cause material fluctuations or declines in our revenues.***

We have derived, and believe that we will continue to derive, a significant portion of our revenue from telecom operators in China, including (i) the respective headquarters, provincial companies, municipal companies and specialized companies of China Mobile, China Unicom and China Telecom, and (ii) China Tower, the joint venture of China Mobile, China Unicom and China Telecom, with whom we negotiate and enter into contracts individually and directly. Revenue for the Software Business from these telecom operators in the aggregate accounted for 87.0%, 88.9%, 93.9% and 96.6% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively.

We believe that our future success will continue to depend, to a significant extent, on our ability to develop and maintain long-term relationships with telecom operators in China. Consequently, any of the following events may cause failure to maintain close relationships with these customers and material declines in our revenues, which could have a material adverse effect on our business, results of operations and financial condition:

- unsuccessful sales and marketing efforts and lack of suitable software products and services for telecom operators;
- a reduction, delay or cancelation of orders from one or more of these telecom operators for any reason, including their decision to leverage internal resources to meet software needs instead of outsourcing to third-party providers;
- a change in preference for our competitors' software products and services over ours by one or more of these telecom operators;
- a disruption of customer relationship due to telecom operators' centralization of their purchasing decisions, change of key decision-makers or other changes in the decision-making level within the telecom operators;



## RISK FACTORS

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- the loss of one or more of these telecom operators as our customers and our failure to identify replacements;
- the failure of any of these telecom operators to make timely payment for our software products and services for any reason, whether or not related to us; and
- our inability to meet these telecom operators’ evolving technical and quality standards and provide satisfactory customer support and services.

***The growth of our business is significantly dependent on policies related to the telecom industry in China.***

Our telecom operator customers, from whom we currently derive a substantial majority of our revenue, are directly or indirectly owned or controlled by the PRC government. Accordingly, our business is heavily dependent on policies related to the telecom industry in China:

- ***Competitive Landscape.*** Industry policies could significantly affect the competitive landscape in China’s telecom industry and influence our telecom operator customers’ level of spending on software products and services. The Chinese government has promulgated various favorable policies in recent years to accelerate the growth of the telecom industry. These industry policies may increase market competition and generate more demand for software products and services. However, the anticipated increase in demand may not materialize. Some of our telecom operator customers may not adapt well to the market conditions under the new regulatory environment and may reduce their demand for our software products and services as a result. The telecom industry in China may also become less competitive over time, either as a result of market propelled consolidations or as a result of government efforts to curtail competition. A less competitive market may lead to reduced IT spending on software product upgrades and replacements, which may directly affect our revenues and business prospects; and
- ***Industry restructurings.*** Historically, China’s telecom industry has been subject to a number of industry restructurings, the latest one being China’s Unicom’s Mixed-Ownership Reform in 2017, which is expected to facilitate China Unicom’s collaboration with strategic investors in Internet, e-commerce and other sectors in terms of emerging technologies and innovative business models. These restructurings could cause telecom operators’ demand for software products and services to fluctuate significantly.

***If we are unable to execute our growth strategies effectively, our business and prospects may be materially and adversely affected.***

We plan to continue to execute a number of growth strategies, including actively exploring new business opportunities in the areas of data-driven operation services, IoT and intelligent networks, and actively expanding our customer base in the non-telecom software product and related service market. We cannot assure you that these growth strategies will be successfully executed. For example, we have in recent years been providing data-driven operation services to telecom operators and their government and enterprise customers through data-driven operation platforms under a pay-as-a-result model. Our customers may not respond favorably to our data-driven operation services. If we are unable to execute our growth strategies effectively, our business and prospects may be materially and adversely affected.

## RISK FACTORS

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*If we fail to timely and cost-effectively develop new software products and services and enhance existing ones to meet the evolving requirements of existing and new customers, our business operations could be materially and adversely affected.*

Significant changes in customer requirements and preferences, introduction of new software embodying new technologies and the emergence of new industry standards and practices could lead to rapid declines in sales volumes for products and services with older technologies or standards and render certain products and services obsolete, and may require us to incur substantial unanticipated R&D and other costs.

Our future growth and operating results will depend, to a significant extent, upon our ability to enhance our existing software products and services and to introduce new ones in line with technological advancements which meet the evolving requirements of existing and new customers, and our ability to bring them to market in a timely manner. The telecom and non-telecom software product and related service markets are characterized by rapid and frequent changes in demand for new software products and services. The success of our new software products and services depends upon a number of factors, including our ability to:

- accurately anticipate customer needs;
- innovate and develop new software products and services;
- successfully commercialize new software products and services in a timely manner;
- price our software products and services competitively; and
- differentiate our software offerings from those of our competitors.

If we do not enhance our existing software products and services or introduce new ones to meet the changing needs of our customers in a timely manner, our software products and services may become obsolete, and our revenues and operating results may suffer. In addition, our efforts in developing new products and services may not prove to be successful. Unexpected technical, operational or other problems could delay or prevent the introduction of any software products and services that we may plan to introduce. The R&D of new or enhanced software products and services is a complex process requiring, among other factors, the accurate anticipation of technological and market trends. New software products and services or refinements and improvements of existing ones may have technical failures, which could cause delays in their introduction. There is also no assurance that any R&D efforts undertaken or to be undertaken by us would result in the successful development of any new or enhanced software products and services, or that any of such new or enhanced software products and services will achieve widespread market acceptance or generate incremental revenues.

*Our business could be materially and adversely affected if we fail to anticipate or adapt to changes in evolving industry standards and technologies.*

The telecom and non-telecom software product and related service markets are characterized by changing technologies, evolving industry standards and continual improvements in performance characteristics and features, which result in short product and service lifecycles, frequent introduction of new products and services and price erosion of existing ones.

We have in the past significantly relied on our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced software products and services. Our continued ability to adapt to such changes and anticipate future standards will be a significant factor in

## RISK FACTORS

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maintaining or improving our competitive position and our growth prospects. We cannot assure you that we will be able to anticipate the evolving industry standards and technologies or that we will be able to successfully develop and introduce new products and services to meet the new standards or technologies. The process of developing and marketing new products or services is inherently complex and involves significant uncertainties. There are a number of risks, including the following:

- our software planning efforts may fail to result in the development or commercialization of new technologies or ideas;
- our R&D efforts may fail to translate new plans into commercially feasible products or services;
- our new technologies, products and services may not be well received by customers;
- we may not have adequate funding and resources necessary for continual investments in software planning and R&D; and
- our newly developed technologies may not be protected as proprietary intellectual property rights.

If we fail to anticipate or adapt to changes in evolving industry standards and technologies, we may be unable to compete effectively and our business and results of operations could be materially and adversely affected.

***The markets in which we operate are competitive, and we cannot assure you that we will be able to compete successfully against our competitors, grow at a rate comparable to our growth rate in the past or successfully maintain or enhance the awareness of our brand.***

We operate in China’s telecom and non-telecom software product and related service markets, which are competitive. Our major competitors include Huawei (limited to its software business targeting telecom operators and large enterprises), ZTE Corporation (limited to its software business targeting telecom operators and large enterprises), Shenzhen Tianyuan DIC Information Technology Co., Ltd. and Business-intelligence of Oriental Nations Corporation Ltd.. We expect competition to intensify in the future as existing competitors introduce new and more competitive offerings alongside their current products and services. New market entrants may also introduce products and services with competitive proprietary technologies, which could have a significant negative impact on the demand for our software products and services and, consequently, our business and results of operations.

Increased competition may result in price reductions, reduced margins and market share and increased marketing and R&D expenditures. We may face greater than expected downward pricing pressure as a result of possible price competition by competitors seeking to stimulate demand in order to maintain or increase market share. Our competitors may have significantly greater financial, R&D, sales and marketing and other resources than we do and may be able to respond more quickly to new and emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of new products or services. We cannot assure you that we will be able to compete effectively and increase or maintain our revenue and market share in China’s telecom and non-telecom software product and related service markets or compete successfully against our current or future competitors.

In addition, it is possible that competition in the form of new competitors or alliances, joint ventures or consolidation among existing competitors may decrease our market share. If we are unable

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to successfully compete with existing and future competitors, our business, financial condition and results of operations could be materially adversely affected and we may not maintain our growth rate at any particular level or at all.

In addition, if we do not successfully maintain and enhance our brand, our business may not grow. The promotion of our brand may require us to make additional expenditures, such as advertising expenditure, and we anticipate that such expenditures may increase as our market becomes more competitive.

***We may not be successful in the tender processes for our projects and our business and financial condition may be adversely affected.***

Projects for the deployment of new software systems for our telecom operator and enterprise customers generally involve a tender process, where potential suppliers are required to submit detailed bidding proposals in response to a tender offer. In the event that a tender process is involved, there is no guarantee that our bids will be successful and we may not be awarded project development contracts in light of the competitive tendering due to various reasons. In addition, the tender process may also create pricing pressure among suppliers of competing products, and our results of operations and profitability could be adversely affected if we are not successful in winning bids in the tender process at profitable levels. If we are unable to succeed in the tender processes in which we participate at profitable levels or at all, our business and financial condition may be adversely affected.

***Our revenue is generally derived from project development contracts with fixed prices. Our results of operations and financial condition would be materially and adversely affected if we are unable to recover any cost overruns or if there are delay in payments from our customers. If there are any project delays, we may be subject to liquidated and/or statutory damages and our customer experience may be adversely affected.***

During the Track Record Period, most of our revenue from continuing operations was derived from project-based project development contracts with fixed prices. Under these contracts, we develop software products and provide deployment services at a fixed price and, as a result, we may be unable to recover any cost overruns from our customers. The actual costs may differ from our estimates due to unanticipated technical or other problems that may incur during the project development process, which may require us to incur additional costs we cannot recoup, failure to properly estimate the repair or maintenance requirements of our customers and other unforeseeable reasons.

In addition, implementations of these projects are subject to various factors such as cost of supplies, transportation delays, disruption of supply and increase in labor cost. Some of these factors may be beyond the control of us and our customers. These unforeseen factors which we are exposed to may affect the smooth implementation of these projects within the fixed budget and time frame, which would cause cost overruns and liability for late completion fines. Such factors could, in turn, have an adverse effect on our financial position. If our cost estimates for a project development contract fail to account for any unforeseen factors, or if we do not execute the project development contract within our cost estimates, our gross profit may be reduced and our results of operations would be adversely affected.

The contract price of our project development contracts is generally due and payable in installments with reference to various milestone dates at various stages of the project development

## RISK FACTORS

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process, such as signing project development contract, completion of preliminary inspection and completion of final inspection. See “Business—Project Development Process—Project Development Process for Software Products and Related Services” for more details. As a result, we are required to pre-pay certain costs and expenses relating to our projects prior to receiving full payments from our customers. During the lifecycle of a project, a customer’s budgeting constraints can impact the scope of a project and the customer’s ability to make payments on a timely basis. Delays in receiving payments from or non-payment by our customers may adversely affect our cash flow position and our ability to meet our working capital requirements. Defaults in making payments to us on projects for which we have already incurred significant costs and expenditures can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available for other projects. In addition, adverse general economic conditions may degrade the creditworthiness of our customers over time. We cannot assure you that our customers will make payments in full to us on a timely basis or that we will be able to efficiently manage the level of bad debt arising from staged payments.

Moreover, our project development contracts provide for specific delivery milestones and some of our customers are entitled to claim liquidated and/or statutory damages from us if we do not meet the delivery milestones. Liquidated damages are typically levied at an agreed daily rate. Failure to meet the specific delivery milestones of our project development contracts may adversely affect our results of operations and our relationship with customers.

***Our business and reputation may be affected by product liability claims, litigations, complaints or related adverse publicity.***

Our software products may contain latent defects or flaws. Any flaws or defects discovered could result in loss of revenue or delay in revenue recognition, damage to our reputation and our relationship with customers, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. We provide product warranties for our software products typically for a term of 12 months that are generally limited to product repair and maintenance. In the past, we have discovered software errors, failures, vulnerabilities and bugs in our products after they have been released, and additional errors in our existing products may be detected in the future. Real or perceived errors, failures or bugs in our products could result in negative publicity, loss of or delay in market acceptance of our products and services, loss of competitive position, delay of payment to us and lower renewal rates or claims by customers for losses sustained by them. If our software products fail to perform as expected, or prove to be defective and cause interruption to our customers’ operation, we may be subject to claims for compensation and may incur significant legal costs regardless of the outcome of any claim of alleged defect.

In addition, for the projects which we are responsible for procuring third-party hardware and software, we customarily provide our customers with one- to two-year warranties for these third-party hardware and software. Although we seek to arrange back-to-back warranties with third-party hardware and software vendors, we may have the primary responsibility with respect to their warranties.

Our contracts with customers often lack disclaimers or limitations on liability for special, consequential and incidental damages, nor do we typically cap the amounts our customers can recover for damages. In addition, we do not currently purchase any insurance policy with respect to our



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exposure to warranty claims. The failure of installed systems deploying our products and services to operate properly could give rise to substantial liability for special, consequential or incidental damages, which in turn could materially and adversely affect us.

***Our business operations and adoption of our products and services may be adversely affected by evolving regulation of personal data protection and privacy concerns in China.***

In the provision of our products and services, we have access to certain personal information and data of the relevant telecom operators’ subscribers, such as name, ID number, contact information and address. We are therefore subject to laws and regulations relating to the collection, use or processing of personal information and data. On February 1, 2013, China’s first set of personal data protection guidelines, the Guidelines for Personal Information Protection in Information Security Technology Public and Commercial Service Systems (《信息安全技術·公共及商用服務信息系統個人信息保護指南》), came into effect, which set forth detailed personal information protection requirements on data collection, data processing, data transfer and data creation. Although these guidelines are voluntary and non-binding, we believe that growing regulatory oversight of data privacy in China is inevitable. In addition, Amendment 7 to the PRC Criminal Law (《中華人民共和國刑法修正案(七)》) prohibits institutions, companies and their employees in the telecommunications and other industries from selling or otherwise illegally disclosing a citizen’s personal information obtained during the course of performing duties or providing services or obtaining such information through theft or other illegal ways. On November 7, 2016, the Standing Committee of the PRC National People’s Congress issued the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), which became effective on June 1, 2017. Pursuant to the Cyber Security Law of the PRC, providers of network products and services shall provide security maintenance for their products and services and shall comply with provisions regarding the protection of personal information as stipulated under the relevant laws and regulations. Complying with these laws and regulations may cause us to incur substantial costs or require us to change our business practices.

We have taken various measures to ensure the security of personal information we have access to in the provision of our products and services: (i) we strictly comply with confidentiality clauses in our agreements with customers, (ii) each of our employees working onsite at our customers’ premises have signed confidentiality undertakings to keep confidential the personal information they have access to, and (iii) each of our employees have signed confidentiality and non-compete undertakings, which provides that they shall strictly adhere to confidentiality policies of our customers when working at their premises. However, individuals or third parties may be able to circumvent such measures and we cannot assure you that a security breach, loss, intrusion or theft of personal information will not occur. Such privacy breach may harm customers’ trust in us, our business, reputation and future prospects and may require us to expend significant resources to address. The perception of privacy concerns, whether or not valid, may inhibit market adoption of our software products and services.

***Our computer networks may be vulnerable to security risks that could disrupt our services and adversely affect our results of operations.***

Our computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems caused by unauthorized access to, or improper use of, systems by third parties or our employees. A hacker who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Computer attacks or disruptions may jeopardize the security of information stored in and transmitted through our computer

## RISK FACTORS

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networks. Actual or perceived concerns that our computer networks may be vulnerable to such attacks or disruptions may deter telecom operators and other customers from using our software products or services. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches, which could adversely affect our results of operations.

***The success of our business depends on the continuing efforts of our key management and technical personnel, and our business may be severely disrupted if we lose their services or if they compete against us; continued increase in wages may adversely affect our results of operations.***

Our future growth and success depends, to a significant extent, on our ability to attract, train and retain qualified executive officers, engineers and technicians, particularly those with expertise in the software and IT industry and established relationships with our major customers. In particular, we are highly dependent on our founder and senior management team, due to their experience, relationships and knowledge in China’s telecom and non-telecom software product and related service markets.

It is imperative for us to develop proprietary technologies and continuously bring to market innovative products and services in response to rapidly evolving customer preferences and technological developments. There is substantial competition for qualified personnel, particularly in the areas of software programming and system engineering, and there can be no assurance that we will be able to attract or retain qualified personnel on commercially reasonable terms or at all. Besides, wages in China’s telecom and non-telecom product and related service markets have increased in recent years and may continue to increase. Wage increases will increase the cost of our products and services of the same quality and increase our cost of sales and services. In the long term, unless offset by increases in efficiency and productivity of our work force, may also result in increased prices for our software products and services, making us potentially less competitive. As a result, our costs may increase and our gross margin and profit margin may decline.

If one or more of our key executive officers, engineers or technicians are unable or unwilling to continue in their present positions, we may not be able to replace them easily. If we fail to provide appropriate training, career opportunities and otherwise motivate and retain our employees, or if our employees fail to acquire the appropriate industry knowledge and expertise or adapt quickly to changing industry and technological trends, we may not be able to execute our strategies and our business and prospects could suffer. As a result, our business may be severely disrupted and we may incur additional expenses to recruit and retain new personnel or find other suitable replacements. The loss of the services of any of our key personnel without adequate replacement, the inability to attract new qualified personnel or significant increases in the cost to retain such personnel may have a material adverse effect on our operations.

In addition, if any of our key management or technical personnel joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our executive officers has entered into employment agreements and confidentiality and non-competition agreements with us. However, in China, where most of these executive officers reside, if we have not provided adequate compensation for three months to these executive officers for their non-competition obligations and any dispute arises between our executive officers and us, the non-competition provisions contained in their confidentiality and non-competition agreements may not be enforceable according to the relevant PRC regulations.



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***We may be subject to additional contributions of social insurance and late payments and fines imposed by relevant governmental authorities.***

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), we are required to make social insurance for our employees in amounts equal to certain percentage 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 business. We have in the past failed to make full contributions to such social insurance for our employees, and we have made provisions in connection with this non-compliance of RMB45.5 million, RMB18.4 million, RMB17.6 million and RMB0.3 million in 2015, 2016 and 2017 and three months ended March 31, 2018. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim or request from these employees in this regard. However, we cannot assure you that the relevant local government authorities will not require us to pay the outstanding amount and impose late fees or fines on us. If we fail to repay the outstanding social insurance contributions within the prescribed period, we may be subject to a fine of one to three times the amount of the overdue payment. See “Business—Legal Proceedings and Compliance—Social Insurance Contribution Shortfalls” for more details.

***Weakened economic conditions in China may adversely affect our industry, business and results of operations.***

As a substantial majority of our software products and services are offered in China, our overall performance and demand for our software offerings depend in part on economic conditions in China and any prolonged slowdown in the Chinese economy may have a negative impact on our business, results of operations and financial condition. In particular, the demands for telecom and non-telecom software products and services are subject to business cycles and may rise or fall along with the overall economic and business environment in China.

Economic conditions in China are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the lows of 2008 and 2009 has been uneven and there are new challenges, including the escalation of the European sovereign debt crisis from 2011 and the slowdown of China’s economic growth since 2012 which may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. The slowdown in China’s economic growth and credit tightening have adversely affected people’s economic outlook. If present Chinese and global economic uncertainties persist, the rate of software spending can be negatively affected and the ability or willingness of our existing and potential customers to purchase our software products and services may be adversely affected, which could adversely affect our operating results. We are also dependent on general economic conditions, which any adverse economic developments involving China, such as the recent U.S.-China trade tension, could lead to a general decline in domestic consumption and a slowdown in international trade.

***Any change or discontinuation of preferential tax treatment we currently enjoy would increase our tax charge.***

During the Track Record Period, certain subsidiaries of our Company enjoyed some preferential tax treatments. For example, certain of our subsidiaries, including AsiaInfo China and

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AsiaInfo Nanjing, were recognized as Key Software Enterprises within National Programming Layout (國家規劃佈局內重點軟件企業) and enjoyed a preferential EIT rate of 10% during the Track Record Period. See “Financial Information—Description of Major Components of Our Results of Operations—Continuing Operation—Income Tax (Expenses) Benefit” for more details.

We cannot assure you that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy or will be entitled to enjoy will not be canceled. Moreover, we cannot assure you that our relevant PRC subsidiaries will continue to be accredited as a Software Enterprise or High and New Technology Enterprise upon expiration of the preferential tax treatments. If any such change, cancelation or discontinuation of preferential tax treatment occurs, the tax payable by us may be materially increased which will have an adverse impact on our profitability and financial position.

***If we become a party to litigations, legal disputes or claims, such involvement may result in costs and liabilities.***

We have been, and from time to time in the future may, become a party to various litigations, legal disputes or claims arising in the performance of our contractual obligations and in the ordinary course of our business, such as labor disputes. See “Business—Legal Proceedings and Compliance” for more details. Our project development contracts with our customers may contain provisions prohibiting sub-contracting or outsourcing without the customers’ approval. As a result of past reorganizations, there may be instances of technical breaches where we outsourced certain services to our affiliates in contravention of these terms. To the extent that our customers suffer any loss from such arrangements, we cannot preclude our customers from pursuing claims against us. Ongoing litigations, legal disputes or claims, regardless of merit, may divert our management’s attention and significantly consume our other resources. Furthermore, any litigations, legal disputes or claims which are initially not of material importance may escalate due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved.

Negative publicity arising from litigations, legal disputes or claims may damage our reputation and adversely affect our brand image. In addition, if any verdict or award is rendered against us, we could be required to pay significant monetary damages, assume other liabilities and even to suspend or terminate the related business or project. Consequently, our business, financial condition and results of operations may be materially and adversely affected.

***We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.***

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, copyrights, trade secrets or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims alleging that we have infringed upon intellectual property rights of others, which, regardless of merit, may divert our management’s attention, significantly consume our other resources and adversely affect our brand image. In September 2015, AsiaInfo China was named as a co-defendant in a trade secret infringement claim, which is currently pending before the Beijing Intellectual Properties Court. See “—If we become a party to litigations, legal disputes or claims, such involvement may result in costs and liabilities” and “Business—Legal Proceedings and Compliance”

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for more details. In addition, there may be other third party intellectual property that is infringed by our software products or other aspects of our business. There could also be existing intellectual property rights of which we are not aware that our software may inadvertently infringe. We cannot assure you that owners of intellectual property rights purportedly relating to some aspect of our software products, if any such holders exist, would not seek to enforce such intellectual property rights against us in China or any other jurisdictions. Further, the application and interpretation of China’s intellectual property laws and the procedures and standards for granting intellectual property rights in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis.

If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management’s time and other resources from our business and operations to defend against these claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question.

Moreover, we use open source software in connection with the development of some of our software products. Companies that incorporate open source software into their products have, from time to time, faced claims challenging the ownership of open source software and compliance with open source license terms. As a result, we and/or our customers could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms and could be enjoined from the sale of our products that contained the open source software. In addition, some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavorable terms or at no cost, which could disrupt our sale of the relevant products.

***Our intellectual proprietary rights may be inadequately protected and there is a risk of poor enforcement of intellectual property rights in China.***

Our success and ability to compete depend in part upon our intellectual property, which we protect through a combination of confidentiality arrangements and copyright, trademark, and patent registrations. We have registered trademarks in the PRC, Hong Kong, the United States, Singapore, Malaysia, Thailand, Japan, Australia and the European Union and have filed trademark applications in the PRC. We have also registered copyrights in China with respect to certain of our software products. We have been granted numerous patents in the PRC and the United States and have filed many other patent applications in the PRC for software products used or developed in our business. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Since the Chinese legal system in general and the intellectual property regime in particular, are relatively weak, it is often difficult to enforce intellectual property rights in China. In addition, there are other countries where effective copyright, trademark and trade secret protection may be unavailable or limited.

Policing unauthorized use of our intellectual proprietary rights is difficult and the steps we take may not prevent misappropriation or infringement of our proprietary technology. In addition, litigation

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may be necessary to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the intellectual proprietary rights of others, which could result in substantial costs and diversion of our resources.

A portion of our business involves the development and customization of software products for customers. We generally retain significant ownership or rights to use and market such software for other customer projects, where possible. However, our customers sometimes retain co-ownership and rights to use the software products, processes, and intellectual property so developed. In some cases, we may have no right or only limited rights to reuse or provide these products, processes and intellectual property to other customers. To the extent that we are unable to negotiate contracts which permit us to reuse these products, processes and intellectual property, or to the extent that we have conflicts with our customers regarding our ability to do so, we may be unable to provide similar products to our other customers.

***Defects related to certain of our leased properties may adversely affect our ability to use these properties.***

As of June 30, 2018, we operated our businesses through certain leased properties with a total gross floor area of 75,500 square meters in China. Our leased properties primarily serve as offices and dormitories. Any dispute or claim in relation to the titles of the properties that we occupy or any litigation involving allegations of illegal or unauthorized use of these properties could expose us to potential fines or render us unable to continue to use such properties. See “Business—Properties—Leased Properties” for more details.

Pursuant to the applicable PRC laws and regulations, lease agreements must be registered with the local branches of the PRC Ministry of Housing and Urban-Rural Development. As of June 30, 2018, we failed to register the lease agreements for 126 leases with a gross floor area of 75,114 square meters, accounting for 99.5% of the total gross floor area we leased, primarily due to the relevant lessors’ failure to cooperate. Although we are in the process of registering these lease agreements with the relevant government authorities, there is no assurance that such registration will be completed in a timely manner. Our PRC Legal Advisor has advised us that the lack of registration of such lease agreements will not affect their validity under PRC law, however, a fine of up to RMB10,000 may be imposed for non-registration of each lease agreement, exposing us to potential fines of up to RMB1,260,000.

As of June 30, 2018, the lessors of 13 of our leased properties failed to provide us with valid property ownership certificates or authorization from the property owners for the lessors to sub-lease such properties. These properties had a gross floor area of 3,019 square meters, accounting for 4.0% of the total gross floor area we leased. There is a risk that such lessors may not have the relevant property ownership certificates or even the right to lease or sub-lease such properties to us, in which case the relevant lease agreements may be deemed invalid and we may be forced to vacate these properties. Our business may be interrupted and additional relocation costs may be incurred if we are required to relocate operations affected by such defects. Moreover, if our lease agreements are challenged by third parties, it could result in diversion of management attention and cause us to incur costs associated with defending such actions, even if such challenges are ultimately determined in our favor.

In addition, as of June 30, 2018, 13 of our leased properties are subject to registered mortgages. These properties had a gross floor area of 5,793 square meters, accounting for 7.7% of the total gross

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floor area we leased. We may be forced to vacate these properties in the event that the mortgagees foreclose on these properties.

*We may seek to grow our business through acquisitions of or investments in new or complementary businesses, technologies or products, or through strategic alliances, and the failure to manage acquisitions, investments or strategic alliances, or the failure to integrate them with our existing business, could have a material adverse effect on us.*

We may consider opportunities to acquire or make investments in new or complementary businesses, technologies or products, or enter into strategic alliances, that may enhance our capabilities, complement our current software products and services or expand the breadth of our markets. We do not know if we will be able to identify suitable acquisitions or strategic relationships. Our ability to successfully grow through strategic transactions depends upon our ability to identify, negotiate, complete and integrate suitable target businesses, technologies and products and to obtain any necessary financing. These efforts could be expensive and time-consuming and may disrupt our ongoing business. In addition, our ability to successfully integrate acquired businesses may be adversely affected by a number of factors. These factors include:

- diversion of management’s attention;
- difficulties in retaining customers of the acquired businesses;
- difficulties in retaining personnel of the acquired businesses;
- entry to new markets in which we have not previously operated;
- unanticipated problems or legal liabilities; and
- tax and accounting issues.

If we are unable to integrate any acquired businesses, technologies and products effectively, our business, results of operations and financial condition could be materially adversely affected. Furthermore, the acquired companies may not perform to our expectations for various reasons, including legislative or regulatory changes that affect the products or services in which the acquired companies specialize, and the loss of key customers and personnel. If we are not able to realize the benefits envisioned for such acquisitions, joint ventures or other strategic alliances, our overall profitability and growth plans may be adversely affected.

*Natural disasters, epidemics, acts of war, terrorist attacks and other events could materially and adversely affect our business.*

Natural disasters (such as typhoons, flooding and earthquakes), epidemics, acts of war, terrorist attacks and other events, many of which are beyond our control, may lead to global or regional economic instability, which may in turn materially and adversely affect our business, financial condition and results of operations. An outbreak or epidemic, such as those of the Middle East Respiratory Syndrome (“MERS”), Ebola virus disease, the severe acute respiratory syndrome (“SARS”) or the H1N1 and H5N1 viruses, could cause general consumption demand to decline. In addition, political tensions or conflicts and acts of war or the potential for war could also cause damage and disruption to our business, which could materially and adversely affect our business, financial condition and results of operations.



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***Any non-compliance with relevant anti-bribery and anti-corruption laws by our employees or parties who have a business relationship with us may materially and adversely affect our business operation.***

Our industry is subject to anti-bribery and anti-corruption laws and regulations. In the PRC, where we operate substantially all of our business and where all of our revenue is generated from, we must strictly comply with the PRC criminal laws and other applicable regulations, which prohibit companies and their intermediaries from making improper payments or other benefits to government officials or other parties for the purpose of obtaining or retaining business, including improperly influencing the results of tenders.

While we have internal controls and procedures in place to monitor internal and external compliance with anti-corruption laws, regulations and policies, we cannot assure you that such internal controls and procedures will always protect us from penalties that may be imposed by PRC government authorities due to violations committed by our employees or other parties with whom we have a business relationship. If our employees or other parties are found or alleged to be in violation of anti-corruption regulations, we may face or be involved in fines, lawsuits, loss of permits and licenses and loss of key personnel, as well as damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

***We rely on outsourcing service providers to provide certain services to us, and any failure by the outsourcing service providers to meet our quality and safety standards may result in our liabilities to our customers.***

During the Track Record Period, we engaged third-party outsourcing service providers to provide certain non-core IT services at different stages of our project development process, such as certain aspects of our operations and maintenance services which do not require extensive software and IT expertise. See “Business—Our Suppliers—Outsourcing Service Providers” for more details.

We closely monitor the performance of our outsourcing service providers, but we may not be able to control the quality and safety standards of the work done by such outsourcing service providers to the same extent as when the work is performed by our own employees. Any failure by the outsourcing service providers to meet our quality and safety standards may result in our liabilities to our customers and have a material adverse effect on our business, reputation, financial condition and results of operations. Moreover, if our outsourcing service providers cannot meet delivery deadlines or deliver services of unsatisfactory quality, our business, reputation and operations may be adversely affected. There is no assurance that the services our outsourcing service providers provide will always be able to meet the requirements of our customers. If any services they deliver cannot meet our customers’ requirements or standards, we may not be able to meet our commitments to our customers, which may have an adverse impact on our business reputation. Any failure to retain our current outsourcing service providers or obtain replacement of favorable terms or at all may have an adverse effect on our business and results of operations.

***Our insurance coverage may not completely cover the risks related to our business and operations.***

We maintain limited insurance coverage such as property insurance. We do not carry any business interruption insurance or product liability insurance, which we believe is in line with industry practice. There is no assurance that our insurance coverage would be sufficient to cover all our potential losses related to our business and operations. See “Business—Insurance” for more

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information on the insurance policies maintained by us. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be negatively affected.

***We may not be able to obtain additional capital and proceed with our long-term business plan.***

We will require additional working capital to support our long-term business plan, which includes identifying suitable targets for horizontal or vertical mergers or acquisitions, so as to enhance the overall productivity and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, may vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. We may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our software products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

***CITIC Capital Entities have significant influence over our Company and their interests may not be aligned with the interest of our other shareholders.***

Upon completion of the [REDACTED], CITIC Capital Entities will, through Skipper Investment Limited as the immediate Shareholder of the Company, remain as our substantial shareholder and although they will not have a controlling interest of 30% or more in us, Skipper Investment Limited is expected to remain as the single largest Shareholder of our Company. CITIC Capital Entities will, through the voting power at the Shareholders’ meetings controlled by Skipper Investment Limited and their delegates on the Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of additional Shares or other equity securities, timing and amount of dividend payments, and our management. CITIC Capital Entities may not act in the best interests of our minority Shareholders.

***The actual or perceived sale or availability for sale of substantial amounts of our Shares by our existing Shareholders, including our institutional Shareholders and individual Shareholders, could have an adverse effect on the market price of our Shares.***

Future sales of a substantial number of our Shares by our existing Shareholders, including our institutional Shareholders and individual Shareholders (including Shares that will be in issue upon completion of the [REDACTED] and the Shares that may be allotted and issued by us pursuant to the exercise of the outstanding share options under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs under the [REDACTED] RSA Scheme), or the perception or anticipation of such sales, could negatively 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 Shares held by CITIC Capital Entities are subject to certain lock-up period. For further details, see the section headed [REDACTED] in this



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[REDACTED]. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up period, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

*Allotment and issue of Shares upon the exercise of the share options granted under the [REDACTED] Share Option Scheme and upon the vesting of the RSAs granted under the [REDACTED] RSA Scheme will result in the dilution of [REDACTED] in our Company and a significant amount of employee benefit expenses.*

We have granted share options under the [REDACTED] Share Option Scheme and RSAs under the [REDACTED] RSA Scheme to certain of our employees, ex-employees, consultants and ex-consultants. As of the Latest Practicable Date, share options underlying a total of 15,049,232 Shares (being 120,393,856 Shares after the completion of the Share Subdivision) granted under the [REDACTED] Share Option Scheme remain unexercised and outstanding and a RSAs underlying a total of 2,095,115 Shares (being 16,760,920 Shares after the completion of the Share Subdivision) granted under the [REDACTED] RSA Scheme remain unvested and outstanding. Assuming full exercise of such outstanding share options granted under the [REDACTED] Share Option Scheme and full vesting of such outstanding RSAs granted under the [REDACTED] RSA Scheme, the shareholding of our Shareholders immediately following the [REDACTED] would be diluted by [REDACTED] as calculated based on [REDACTED] Shares then in issue (without taking into consideration any Shares which may be allotted and issued upon the exercise of the [REDACTED], but including Shares issued pursuant to the full exercise of the outstanding share options granted under the [REDACTED] Share Option Scheme and the full vesting of outstanding RSAs granted under the [REDACTED] RSA Scheme are vested) and the dilution effect on our earnings per Shares would be [REDACTED]. Issuance of Shares pursuant to the exercise of the share options granted under the [REDACTED] Share Option Scheme and the vesting of the RSAs granted under the [REDACTED] RSA Scheme will result in an increase in the total number of Shares in issue and therefore dilute [REDACTED] percentage in our Company.

Moreover, we are required to recognize share-based compensation as expenses in respect of the share options granted under the [REDACTED] Share Option Scheme and the RSAs granted under the [REDACTED] RSA Scheme. We expect to recognize a significant amount of employee benefit expenses in our combined financial statement in respect of the share options granted under the [REDACTED] Share Option Scheme and the RSAs granted under the [REDACTED] RSA Scheme, particularly in 2018 and 2019. The recognition of employee benefit expenses in respect of the outstanding share options and RSAs could negatively impact on the financial results of our operations on a per-Share basis.

*We have incurred negative cash flows from operations and net current liabilities in the past.*

Although we generated profit before tax from continuing operations of RMB397.4 million, RMB141.0 million, RMB423.8 million and RMB83.2 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, we had cash used in operating activities of RMB136.2 million in the three months ended March 31, 2018. In addition, we had net current liabilities of RMB147.9 million as of March 31, 2018, primarily due to the refinancing of the Privatization Syndicated Loan in 2018. We expect our costs and expenses to increase in absolute amounts in the future due to, among others, the continued expansion of our business operations and customer base, and the exploration of new business opportunities in the areas of data-driven operation services, IoT and intelligent network. We may fail to increase our operational margin and our result of operations and financial condition may be adversely affected.

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### RISKS RELATING TO DOING BUSINESS IN CHINA

*Changes in political, social and economic policies in China may materially and adversely affect our business, financial condition, results of operations and prospects.*

All of our operating subsidiaries are located in China and all of our business activities are conducted in China. Accordingly, changes in political, social and economic policies in China may materially affect our results of operations and business prospects. The Chinese economy differs from the economies in most developed countries in many aspects, including the level of government involvement, degree of development, economic growth rate, control of foreign exchange and allocation of resources. Since 1978, the Chinese government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. Many of the reforms are exploratory or experimental, and they are expected to be modified as the economic and social situation develops. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. Although China has experienced rapid economic growth over the past decades, its continued growth has been facing downward pressure since the second half of 2008 and its annual GDP growth rate has declined from 7.3% in 2014 to 6.9% in 2015 and to 6.7% in 2016. There is no assurance that future growth will be sustained at similar rates or at all. Our business, financial position, results of operations and prospects may be adversely affected by Chinese government’s political, economic and social policies affecting our industries.

The PRC Government exercises significant control over PRC economic growth through allocation of resources, restrictions on payment of foreign currency-denominated obligations, the setting of monetary policy and provision of preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on overall economic growth and the level of IT investments and expenditures in China, which in turn could lead to a reduction in demand for our software and consequently have a material adverse effect on our businesses.

While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically, among various sectors of the economy, and during different periods. The PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC Government has in the past implemented certain measures, including interest rate increases, in an attempt to control the rate of economic growth. The PRC economy has begun to show signs of a potential slowdown in recent years, including decreased gross domestic product growth rates. In response, the PRC Government has announced stimulus measures, but the overall impact of such stimulus measures is uncertain, and they may not have the intended effects. The Chinese economy may not continue to grow, and if there is growth, such growth may not be steady and uniform; and if there is a slowdown, such a slowdown may have a material negative effect on us.

Since we currently derive all of our revenue in China, any prolonged slowdown in the Chinese economy or downturn affecting the global economy generally, or the adoption by the PRC Government of policies detrimental to the software industry, could materially and adversely affect our business, results of operations and financial condition.

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*Uncertainties in the Chinese legal system may adversely affect our business and limit the legal protection available to you.*

While we are incorporated in the BVI, substantially all of our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations and promulgated laws and regulations in relation to economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to establishing a comprehensive legal system conducive to investment activities. However, the implementation, interpretation and enforcement of these laws and regulations may cause greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history, limited volume of court cases and their non-binding nature. Furthermore, many laws, regulations and legal requirements have only recently been adopted by the central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for guidance. PRC administrative and court authorities also have significant discretion in interpreting and enforcing statutory and contractual terms. It thus may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. Depending on the government agency or how an application or a case is presented to such agency or other factors, we may receive less favorable application of law.

In addition, any litigation or legal proceeding in China may be protracted and result in substantial legal costs and diversion of resources and management attention. We cannot predict the effect of future legal developments in China, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local rules and regulations by national law, the overturn or modification of the lower-level authority’s decisions at the higher level, or the changes in judiciary and administrative practices. As a result, there is substantial uncertainty as to the legal protection available to us or to our investors.

Moreover, there can be no assurance that the PRC government will not amend or revise existing laws, rules or regulations, or promulgate new laws, rules or regulations, in a manner which materially and adversely affects our business, results of operations or financial condition. For example, the PRC government may require additional approvals, licenses or permits for our business and operations, or impose stricter requirements or conditions for the maintenance or renewal of approvals, licenses or permits required for our business and operations, or adopt new or stricter national standards for our products. Any loss of or failure to obtain, maintain or renew our approvals, licenses or permits or failure to meet the new or stricter national standards could disrupt our operations or subject us to fines or penalties imposed by the PRC government. See “Regulatory Overview.”

*There are significant uncertainties under the EIT Law of the PRC, with respect to our PRC enterprise income tax liabilities, and with respect to possible PRC withholding tax upon our shareholders.*

There are significant uncertainties under the EIT Law, which came into effect on January 1, 2008, and its implementation rules.

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Under the EIT Law and its implementation rules, enterprises organized under the laws of jurisdictions outside the PRC with their “de facto management bodies” located within the PRC may be considered “PRC resident enterprises” and subject to a uniform 25% PRC income tax on their worldwide income. The implementation rules to the EIT Law define the term “de facto management body” as “body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise”. The Notice on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in accordance with Criteria for Determining Place of Effective Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) and the Administrative Measures on the Corporate Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》) issued in April 2009 and July 2011 and amended in June 2015, October 2016 and June 2018, respectively, set out certain criteria for what constitutes a “de facto management body” in respect of enterprises that are established offshore by PRC enterprises, which could be applied in determining the tax resident status of non-PRC enterprises, regardless of whether they are established by PRC enterprises.

As substantially all of the operational management of our Company is currently based in the PRC, we and our offshore subsidiaries may be deemed to be “PRC resident enterprises” for the purpose of the EIT Law. If we or our offshore subsidiaries are deemed PRC resident enterprises, we could be subject to the EIT at 25% on our global income, except that the dividends we receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividend income constitutes “dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise.” It is, however, unclear what type of enterprise would be deemed a “PRC resident enterprise” for such purposes. If we are deemed a PRC resident enterprise and earn significant income other than exempted dividends from our PRC subsidiaries, the EIT on our global income could significantly increase our tax burden and adversely affect our cash flows and profitability.

Further, pursuant to the EIT Law and its implementation rules, PRC income tax at the rate of 10% is generally applicable to PRC source dividends paid by “PRC resident enterprises” to investors that are “non-PRC residents”. Similarly, any gain realized on the transfer of the shares of “PRC resident enterprises” by such investors is also subject to PRC income tax, usually at the rate of 10% unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends payable to our foreign investors or gains our foreign investors may realize from the transfer of the Shares may be treated as income sourced within the PRC and be subject to PRC income tax. Accordingly, if we are deemed a PRC resident enterprise under the EIT Law, our shareholders that are “non-PRC resident enterprises” could be subject to the withholding income tax upon the dividends payable by us or upon any gains realized from the transfer of our Shares at the rate of 10% unless otherwise reduced or exempted. Such dividends or gains received by non-PRC resident individuals may be subject to PRC individual income tax at a rate of 20%.

It is unclear whether, if we and our offshore subsidiaries, are deemed a PRC resident enterprise, our shareholders would be able to claim the benefit of income tax treaties entered into between China and other countries or regions. If dividends payable to our shareholders that are “non-PRC residents,” or gains from the transfer of our Shares are subject to PRC tax, the value of such shareholders’ investment in our Shares may be materially and adversely affected.



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***The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisition or restructuring strategies or the value of [REDACTED].***

On February 3, 2015, the PRC State Administration of Taxation issued the *Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises* (《國家稅務總局公告2015年第7號——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 abolished certain provisions in the *Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises* (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (“**Circular 698**”), which was previously issued by the PRC State Administration of Taxation on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”). On October 17, 2017, the PRC State Administration of Taxation promulgated the *Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source* (《國家稅務總局公告2017年第37號——關於非居民企業所得稅源泉扣繳有關問題的公告》) (“**SAT Circular 37**”), which became effective and replaced Circular 698 and certain other regulations on December 1, 2017. SAT Circular 37 simplifies procedures for withholding and payment of income tax by non-resident enterprises.

For example, Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

***A failure by our Shareholders who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.***

The State Administration of Foreign Exchange, or the SAFE, has promulgated several regulations requiring PRC residents to register with PRC government authorities before engaging in direct or indirect offshore investment activities, including Circular of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment,

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Financing and Roundtrip Investment through Special Purpose Vehicles Conducted by domestic Residents in China via Special-Purpose Companies (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), issued and effective on July 4, 2014. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with assets or equity interests of onshore companies or offshore assets or interests held by the PRC residents, referred to in SAFE Circular 37 as a “special purpose vehicle”. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle.

If our Shareholders or beneficial owners who are PRC citizens or residents do not complete or update their registration with the qualified banks in accordance with the currently applicable foreign exchange regulations, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liabilities for our PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions.

We are committed to complying with and to ensuring that our Shareholders and beneficial owners who are subject to the regulations will comply with the relevant rules. However, as of the Latest Practicable Date, certain Shareholders and beneficial owners of our Company have not completed their registration with the qualified banks. In addition, there is no assurance that all of our future Shareholders or beneficial owners who are PRC residents will make or obtain any applicable registrations or approvals required by SAFE Circular 37 or other related regulations. Failure by any such Shareholders or beneficial owners to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects.

***Fluctuations in exchange rates may result in foreign currency exchange losses and may have a material adverse effect on [REDACTED].***

The change in the value of Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. For instance, in the PRC from 1995 until July 2005, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and the U.S. dollar, has been based on fixed rates set by the PBOC. The PRC government, however, has, with effect from July 21, 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On July 21, 2005, this revaluation resulted in the Renminbi appreciating against the U.S. dollar and the Hong Kong dollar by approximately 2% on that date, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. On June 19, 2010, the PBOC announced that it intended to further reform the Renminbi exchange rate regime by enhancing the flexibility of the Renminbi exchange rate. On March 17, 2014, the PBOC enlarged the previous floating band of the trading prices of the Renminbi against the U.S. dollar in the inter-bank spot foreign exchange market from 1% to 2% in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand with reference to a basket of currencies. In August

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2015, the PBOC changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day’s closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the Renminbi depreciated approximately 5.8% against the U.S. dollar, and from December 31, 2015 through June 30, 2016, the value of the Renminbi further depreciated approximately 2.6% against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant fluctuation in the value of Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies. Renminbi was added to its group of global reserve currencies by The International Monetary Fund on November 30, 2015, which makes Renminbi to some extent more susceptible to market forces as the PRC government loosens some of its currency controls. With an increased floating range of Renminbi value against foreign currencies, the Renminbi may further appreciate or depreciate significantly in value against the Hong Kong dollar, the U.S. dollar or other foreign currencies in the long term.

During the Track Record Period, we incurred exchange gains and losses associated with fluctuation in exchange rate of the U.S. dollar against Renminbi, which was related to the Privatization Syndicated Loan. See “Financial Information—Indebtedness and Contingencies” for more details.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the Hong Kong dollar may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Substantially all of our revenues and expenditures are denominated in Renminbi, and substantially all of our financial assets are also denominated in Renminbi. Any significant change in the exchange rates of the Hong Kong dollar, the U.S. dollar or any other currencies against Renminbi may materially and adversely affect our cash flows, earnings and financial position, and the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, an appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our Hong Kong dollar denominated financial assets into Renminbi, including [REDACTED] from the [REDACTED], as Renminbi is the functional currency of our subsidiaries inside China. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

***The Chinese government’s control of foreign currency may limit our foreign exchange transactions, delay or prevent us from paying dividend on our Shares, using the [REDACTED] of this [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.***

In utilizing the [REDACTED] of this [REDACTED] in the manner described in the section headed “Future Plans and [REDACTED]”, as an offshore holding company, we may extend loans to our PRC subsidiaries, establish new subsidiaries, make additional capital contributions to our PRC subsidiaries or acquire, in offshore transactions, offshore entities with business operations inside China.

On August 29, 2008, the SAFE promulgated Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency



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Capital of Foreign-funded Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (“**Circular 142**”), which requires that any Renminbi obtained from the settlement of the capital of a foreign-invested enterprise shall be used for purposes within the business scope approved by the applicable government authority. Without a special governmental approval pursuant to Circular 142, we may not utilize our existing PRC subsidiaries to apply the settlement of capital for domestic equity investments. We may, however, [REDACTED] from this [REDACTED] for equity investments through acquisitions of offshore entities with business operations in China or establish new subsidiaries with an appropriate business scope to engage in equity investment activities in China.

On March 30, 2015, the SAFE promulgated Notice on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“**Circular 19**”), which became effective on June 1, 2015 to reform the administration of conversion of foreign currency registered capitals of foreign-invested enterprises. According to Circular 19, Circular 142 will be repealed simultaneously when Circular 19 comes into effect. Circular 19 adopts a concept of “discretionary settlement” as opposed to settlement on a payment basis as set forth in Circular 142. Discretionary settlement is defined in Circular 19 as the settlement of a foreign-invested enterprise’s foreign currency registered capital in accordance with the enterprise’s actual business needs. No review of the purpose of the funds is required at the time of settlement under Circular 19. However, use of any Renminbi funds converted from its registered capital shall be based on true transactions, and the Renminbi funds obtained by foreign-invested enterprises from the discretionary settlement of foreign currency registered capitals shall be managed under the accounts pending for foreign currency settlement payment. In addition, equity investments using converted registered capital are no longer prohibited under Circular 19. The SAFE further promulgated Notice on Reforming and Regulating the Policies for the Administration of Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (“**Circular 16**”), which became effective on June 9, 2016, to amend certain provisions of Circular 19.

Violations of the applicable circulars and rules may result in severe penalties, including substantial fines as set forth in the applicable PRC laws and regulations. Our ability to fund our PRC subsidiaries or support our PRC operations will be subject to statutory limits and restrictions, including those described above.

Finally, any capital contributions to our existing PRC subsidiaries or to any new PRC subsidiaries that we may establish in the future must be filed with the MOFCOM or its local counterpart. There can be no assurance that we will be able to complete these filings on a timely basis, if at all. If we fail to complete these filings, our ability to use the [REDACTED] of this [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements, and any insufficiency of foreign exchange may restrict our ability to pay dividends to shareholders or to satisfy any other foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE. However, administrative procedures or registration with appropriate governmental authorities or banks

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are required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Therefore, we may not make the remittance of currency out of China to pay our outstanding and due loans, including but not limited to the Privatization Syndicated Loan, which may burden us with legal obligations under the relevant loan agreements. Under the current existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from SAFE. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. If we fail to obtain approval or registration from SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

***Failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知》) (the “**Stock Option Rules**”), which replaced the earlier rules promulgated by the SAFE in March 2007. Under the Stock Option Rules, PRC residents who participate in stock incentive plans in an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with the SAFE and complete certain other procedures. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC resident employees who have been granted stock options will be subject to the Stock Option Rules upon completion of this [REDACTED]. Failure of the PRC resident holders of our share options to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute dividends to us, or otherwise materially adversely affect our business.

***The enforcement of the Labor Contract Law and increase in labor costs in the PRC may adversely affect our business and our profitability.***

The Labor Contract Law of the PRC became effective on January 1, 2008 and its implementation rules effective on September 18, 2008. The Labor Contract Law, as amended on July 1, 2013, and its implementation rules impose more stringent requirements on employers with regard to, among others, minimum wages, severance payment and non-fixed term employment contracts, time limits for the probation period as well as the duration and the times that an employee can be placed on a fixed term employment contract.

Due to the lack of clarity with respect to the implementation of the Labor Contract Law and its potential penalties and fines, it is uncertain how they will impact our current employment policies and

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practices. Our employment policies and practices may violate the Labor Contract Law or its implementation rules and we may be subject to related penalties, fines or legal fees. Compliance with the Labor Contract Law and its implementation rules may increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

### *There may be difficulties in effecting services of process and seeking recognition and enforcement of foreign judgments in China.*

We are incorporated in the BVI. Our corporate affairs are governed by the Memorandum and the Articles, the BVI Business Companies Act and other laws of the BVI. The rights of shareholders to take legal action against our directors and us, and actions by minority shareholders and the fiduciary responsibilities of our directors under the BVI law are to a large extent governed by the laws of the BVI. Substantially all of our assets are located in China, and most of our senior management members and directors reside in China. However, China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts of the BVI, the United States or many other jurisdictions. As a result, it may be difficult or impossible for investors to effect service of process or enforce court judgments against our PRC subsidiaries, our assets, senior management members or directors in China.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments 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 (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

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

#### *No public market currently exists for our Shares; the market price of our Shares may be volatile and an active trading market for our Shares may not develop.*

No public market currently exists for our Shares. The initial [REDACTED] for our Shares to the public will be the result of negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]), and the [REDACTED] may differ significantly from the market price of the Shares following the [REDACTED]. We have applied to the Stock Exchange for the [REDACTED] of, and permission to deal in, the Shares. A [REDACTED] on the Stock Exchange, however, does

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not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the [REDACTED], or that the market price of the Shares will not decline following the [REDACTED].

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including:

- actual and anticipated variations in our results of operations;
- changes in securities analysts’ estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- recruitment or loss of key personnel by us or our competitors;
- developments affecting our major customers;
- market developments affecting us or the software industry;
- regulatory or legal developments, including litigation;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- fluctuations in trading volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and
- general economic, political and stock market conditions in the PRC, Hong Kong and elsewhere in the world.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

***[REDACTED] will incur immediate and significant dilution and may experience further dilution if we issue additional Shares in the future.***

The [REDACTED] of the [REDACTED] is higher than the net tangible asset value per Share immediately prior to the [REDACTED]. Therefore, purchasers of the [REDACTED] in the [REDACTED] will experience an immediate dilution in [REDACTED]. There can be no assurance that if we were to immediately liquidate after the [REDACTED], any assets will be distributed to Shareholders after the creditors’ claims. To expand our business, we may consider [REDACTED] and issuing additional Shares in the future. Purchasers of the [REDACTED] may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

***There will be a gap of several days between pricing and trading of our Shares, and the [REDACTED] of our Shares when [REDACTED] begins could be lower than the [REDACTED].***

The [REDACTED] of our Shares sold in the [REDACTED] is expected to be determined on the [REDACTED]. However, the Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be not more than five Business Days

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after the [REDACTED]. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the [REDACTED] of the Shares when trading begins could 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 trading begins.

***We may not pay any dividends on the Shares.***

We cannot guarantee when, if, or in what form, dividends will be paid on the Shares following the [REDACTED]. A declaration of dividends must be proposed by our Board and will be based on, and limited by, various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. Furthermore, we may not have sufficient profits to make dividend distributions to Shareholders in the future, even if our financial statements prepared under HKFRS indicate that our continuing operations have been profitable. For further details on our dividend policy, see “Financial Information—Dividend Policy.”

***Certain facts, forecasts and other statistics contained in this [REDACTED] are obtained from government sources and other third parties and may not be accurate or reliable, and statistics in the [REDACTED] provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the “Industry Overview” section of this [REDACTED].***

In this [REDACTED], certain facts, forecasts and other statistics concerning China, its economic conditions and the industries are derived from publications of Chinese government agencies or industry associations, or an industry report prepared by Frost & Sullivan and commissioned by us. Although we have taken reasonable care in extracting those facts, forecasts and statistics, they have not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], any of our or their respective directors, officers or representatives or any other person involved in the [REDACTED]. We cannot assure you that those facts, forecasts and statistics are accurate and reliable. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy in other jurisdictions. You should consider carefully that how much weight you should place on those facts, forecasts and statistics.

***This [REDACTED] contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.***

This [REDACTED] contains certain future plans and forward-looking statements about us that are made based on the information currently available to our management. The forward-looking information contained in this [REDACTED] is subject to certain risk and uncertainties. Whether we implement those plans, or whether we can achieve the objective described in this [REDACTED], will depend on various factors including the market conditions, our business prospects, actions by our competitors and the global financial situations.

***Investors may experience difficulties in enforcing their shareholder right as our Company is incorporated in the BVI, and BVI laws for protection of minority shareholders may be different from those under the laws of Hong Kong and other jurisdictions.***

Our Company is incorporated in the BVI. Our corporate affairs are governed by, amongst other things, the Articles, the Memorandum, the BVI Business Companies Act and the common laws of the



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BVI. The laws of the BVI relating to the protection of minority shareholders may differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority shareholders may be different compared to the laws of Hong Kong and other jurisdictions. As such, investors may experience difficulties in enforcing their shareholder right. See “Summary of the Constitution of our Company and the British Virgin Islands Company Law” in Appendix III of this [REDACTED] for more details.

*You should only rely on the information included in this [REDACTED] to make [REDACTED], and we strongly caution you not to rely on any information contained in press articles or other media coverage relating to us, our Shares or the [REDACTED].*

There had been, prior to the publication of this [REDACTED], and there may be, subsequent to the date of this [REDACTED] but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED]. We have not authorized the disclosure of any information concerning the [REDACTED] 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 [REDACTED], we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their decisions on the basis of the information contained in this [REDACTED] only and should not rely on any other information.

## **WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND EXEMPTION FROM COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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

### **MANAGEMENT PRESENCE IN HONG KONG**

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since we have our headquarters and principal operations in mainland China, the executive Directors have been and are expected to continue to be primarily based in mainland China.

Accordingly, we [have] applied to the Stock Exchange for, and the Stock Exchange [has] granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

1. we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. GAO Nianshu and Ms. YU Wing Sze;
2. each of the authorized representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;
3. all the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange upon reasonable notice;
4. our Company will retain a Hong Kong legal advisor to advise on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations after [REDACTED];
5. Anglo Chinese Corporate Finance, Limited, our compliance advisor, will act as an additional channel of communication with the Stock Exchange; and
6. each Director will provide his or her mobile phone number, office phone number, e-mail address and fax number to the Stock Exchange.

Please see the section headed “Directors and Parties Involved in the [REDACTED]” in this [REDACTED] for further details about other channels of communication with the Stock Exchange.

### **WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS**

We have entered into, and are expected to continue, certain transactions which would constitute continuing connected transactions under the Listing Rules upon [REDACTED]. Accordingly, we [have] applied to the Stock Exchange for and the Stock Exchange [has] granted, a waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Listing Rules for such



**WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND EXEMPTION FROM COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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continuing connected transactions. Further details of such continuing connected transactions are set out in “Connected Transactions” section of this [REDACTED].

**WAIVER IN RELATION TO JOINT COMPANY SECRETARIES**

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of our Company must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- a member of the Hong Kong Institute of Chartered Secretaries;
- a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Cap. 159 of the Laws of Hong Kong)); and
- a certified public accountant (as defined in the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)).

Note 2 to Rule 3.28 of the Listing Rules sets out the factors that the Stock Exchange considers when assessing an individual’s “relevant experience”:

- length of employment with the issuer and other issuers and his/her respective roles;
- familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- relevant training taken and/or to be taking in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- professional qualifications in other jurisdictions.

We have appointed Ms. HE Qiongxiu as one of our joint company secretaries. Ms. HE Qiongxiu has a thorough understanding of the operation of the Board and our Company. Nonetheless, Ms. HE Qiongxiu lacks the qualification stipulated in Rule 3.28 of the Listing Rules and may not be able solely to perform the duties of company secretary. Therefore, we have appointed Ms. YU Wing Sze as our other joint company secretary to provide assistance to Ms. HE Qiongxiu for an initial period of three years from the [REDACTED].

Ms. YU Wing Sze will work closely with Ms. HE Qiongxiu to jointly discharge the duties and responsibilities as company secretary and assist Ms. HE Qiongxiu to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, Ms. HE Qiongxiu will attend relevant professional trainings each year for no less than 15 hours to enhance and improve her knowledge of and familiarity with the Listing Rules and other relevant law, rules and regulations.

We [have] applied for, and the Stock Exchange [has] granted, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules, which will be valid for an initial period of three years, provided that Ms. YU Wing Sze is engaged as a joint company secretary and provides assistance to Ms. HE Qiongxiu during the three-year period. Prior to the expiry of the initial three-year period, an

**WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND EXEMPTION FROM COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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evaluation will be carried out to determine whether the qualifications and experience of Ms. HE Qiongxu can satisfy the requirements set out in Rule 3.28 of the Listing Rules. In the event that Ms. HE Qiongxu has obtained relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

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

Under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this [REDACTED] is required to include, among other things, details of the number, description and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures, must be specified in the [REDACTED]. Paragraph 27 of Appendix 1A to the Listing Rules requires a listing applicant to disclose, inter alia, particulars of any capital of any member of our Group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement, provided that where options have been granted or agreed to be granted to all the members or debenture holders or to any class thereof, or to employees under a share option scheme, it shall be sufficient, so far as the names and addresses are concerned, to record that fact without giving the names and addresses of the grantees. We note that under paragraph 27 of Appendix 1A to the Listing Rules, where options have been granted to employees under a share scheme, it is not necessary to disclose the names and addresses of the grantees of the options. Rule 17.02(1)(b) of the Listing Rules requires that full details of all outstanding options and their potential dilution effect on the shareholdings upon [REDACTED] as well as the impact on the earnings per share arising from the exercise of such outstanding options be disclosed in this [REDACTED].

As at the Latest Practicable Date, we have granted options, which remain to be outstanding and unexercised, to 2,064 persons (the “Grantees” and each a “Grantee”) to subscribe for 15,049,232 Shares (being 120,393,856 Shares after taking into account the Share Subdivision) pursuant to the [REDACTED] Share Option Scheme on the terms set out in “Statutory and General Information—D. [REDACTED] Share Option Scheme” in Appendix IV to this [REDACTED] including one Grantee who is a Director, five Grantees who are members of the senior management of our Group, one Grantee who is a connected person of our Group (collectively the “Disclosed Grantees” and each a “Disclosed Grantee”) and 2,057 Grantees who are employees, ex-employees, consultants and ex-consultants of our Group having the right to subscribe for 13,420,812 Shares (being 107,366,496 Shares after taking into account the Share Subdivision) under the [REDACTED] Share Option Scheme. Save as disclosed in “Statutory and General Information—D. [REDACTED] Share Option Scheme” in Appendix IV to this [REDACTED], no holders of the outstanding share options granted under the [REDACTED] Share Option Scheme is a Director or senior management or connected person of our Group or an employee, ex-employee, consultant and ex-consultant of our Group having the right to subscribe for 474,832 Shares (being 3,798,656 Shares after taking into account the Share Subdivision) or more under the [REDACTED] Share Option Scheme.

**WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND EXEMPTION FROM COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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We [have] applied for (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption from the SFC from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the ground that disclosure of the names and addresses of the 2,057 Grantees of the outstanding share options under the [REDACTED] Share Option Scheme other than the Disclosed Grantees (such Grantees to be collectively referred to as the “**Other Grantees**” and each an “**Other Grantee**”) (the total number of Shares subject to the outstanding share options granted to such Other Grantees being 13,420,812 (107,366,496 Shares after taking into account the Share Subdivision)), as well as the number of Shares in respect of which options have been conditionally granted to each Other Grantee would be unduly burdensome for us due to the following reasons:

- as the options granted under the [REDACTED] Share Option Scheme are in many instances considered as part of the Other Grantees’ remuneration package, information on such options is highly sensitive and confidential among the Other Grantees;
- given that 2,057 Other Grantees are involved, strict compliance with the applicable disclosure requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance on an individual basis in this [REDACTED] will be costly and unduly burdensome on our Company in light of a significant increase in cost and timing for information compilation, [REDACTED] preparation and printing;
- the grant and exercise in full of the options granted under the [REDACTED] Share Option Scheme will not cause any material adverse change in the financial position of our Company;
- a waiver from strict compliance with the applicable disclosure requirements under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance will not hinder our Company in providing an informed assessment of our Company’s activities, assets and liabilities, financial position, management and prospects to our potential investors;
- the disclosure of key information of the options granted to the Disclosed Grantees, as described in “Statutory and General Information—D. [REDACTED] Share Option Scheme” in Appendix IV to this [REDACTED] should provide potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process; and
- the names and addresses of the remaining 2,057 Other Grantees, as well as the number of Shares in respect of which options have been conditionally granted to each of the Other Grantees are immaterial information to potential investors to make a relevant assessment of our Company in their investment decision-making process.

The Stock Exchange [has] granted the waiver to us subject to the following conditions:

- a) the grant of a certificate of exemption from strict compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements by the SFC;
- b) on individual basis, full details of all the options granted by our Company under the [REDACTED] Share Option Scheme to the Directors, senior management and connected persons of our

**WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND EXEMPTION FROM COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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- Group (after taking into account the Share Subdivision), including all the particulars required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be disclosed in this [REDACTED];
- c) in respect of the options granted by our Company to the Other Grantees, the following details be fully disclosed in this [REDACTED]:
    - i. the aggregate number of the Other Grantees;
    - ii. the number of Shares subject to such options;
    - iii. the consideration paid for the grant of such options;
    - iv. the exercise period of the options; and
    - v. the exercise price for the options;
  - d) the dilution effect and impact on earnings per Share upon full exercise of the options granted under the [REDACTED] Share Option Scheme be disclosed in this [REDACTED];
  - e) the aggregate number of Shares subject to the outstanding options granted by our Company under the [REDACTED] Share Option Scheme and the percentage of our Company's issued shares of which such number represents be disclosed in this [REDACTED];
  - f) a summary of the [REDACTED] Share Option Scheme be disclosed in this [REDACTED];
  - g) the list of all the Grantees (including the Other Grantees), containing all details as required under Rule 17.02(1)(b), paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection; and
  - h) the particulars of the waiver will be disclosed in this [REDACTED].

The SFC [has] issued a certificate of exemption under section 38A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance subject to the following conditions:

- a) on individual basis, full details of all the options granted by our Company under the [REDACTED] Share Option Scheme to each of the Directors, senior management or connected persons of our Group are disclosed in this [REDACTED], such details to include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- b) in respect of the options granted by our Company under the [REDACTED] Share Option Scheme to the Other Grantees, the following details are disclosed in this [REDACTED]:
  - i. the aggregate number of Other Grantees;
  - ii. the number of Shares subject to such options;
  - iii. the consideration paid for the grant of such options; and

**WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND EXEMPTION FROM COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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- iv. the exercise period of the option; and
- v. the exercise price for the options;
- c) a list of all the Grantees (including the persons referred to in sub-paragraph (a) above) who have been granted options to subscribe for Shares under the **[REDACTED]** Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with “Documents Delivered to the Registrar of Companies and Available for Inspection—2. Documents Available for Inspection” in Appendix V to this **[REDACTED]**; and
- d) the particulars of the exemption will be disclosed in this **[REDACTED]**.

Further details of the **[REDACTED]** Share Option Scheme are set out in “Statutory and General Information—D. **[REDACTED]** Share Option Scheme” in Appendix IV to this **[REDACTED]**.

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

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]



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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

*For further information on our Directors, please refer to the section headed “Directors and Senior Management.”*

**DIRECTORS**

| <u>Name</u>                                | <u>Residential Address</u>  | <u>Nationality</u> |
|--|---|--------------------|
| <b>Executive Directors</b>                 |   |                    |
| TIAN Suning (田溯寧)                          | Room 903, Building 14<br>Cui Wei Xi Li<br>Haidian District<br>Beijing<br>PRC                      | Chinese            |
| DING Jian (丁健)                             | Flat A, 31/F, Block 1<br>Dawning Views<br>23 Yat Ming Road<br>New Territory<br>Hong Kong          | Chinese            |
| GAO Nianshu (高念書)                          | Room 422, Building 1<br>Zhong Shuang Street Zhong Guan Cun<br>Haidian District<br>Beijing<br>PRC  | Chinese            |
| <b>Non-Executive Directors</b>             |   |                    |
| ZHANG Yichen (張懿宸)                         | House D<br>62-70 Black’s Link<br>Hong Kong  | Chinese            |
| XIN Yuesheng (信躍升)                         | 43D, Seahorse Lane<br>Discovery Bay<br>Hong Kong  | Chinese            |
| ZHANG Liyang (張立陽)                         | 6C, Block 2, No. 48<br>Lane 610, Yan’an West Road<br>Changning District<br>Shanghai<br>PRC        | Chinese            |
| <b>Independent Non-Executive Directors</b> |   |                    |
| GAO Jack Qunyao (高群耀)                      | 1027, Yosemite Villas<br>4 Yuyang Road<br>Hou Sha Yu County<br>Shunyi District<br>Beijing<br>PRC  | American           |
| ZHANG Ya-Qin (張亞勤)                         | 501, 4/F, Block 7<br>No.7 Yuan, Anli Road<br>Chaoyang District<br>Beijing<br>PRC                  | American           |
| GE Ming (葛明)                               | Flat F, 22/F, Block 23<br>Laguna City<br>15 Laguna Street<br>Cha Kwo Ling<br>Kowloon<br>Hong Kong | Chinese            |

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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Further information about the Directors and other senior management members are set out in the section headed “Directors and Senior Management” in this [REDACTED].

**PARTIES INVOLVED IN THE [REDACTED]**

**Joint Sponsors**

**CLSA Capital Markets Limited**

18/F, One Pacific Place  
88 Queensway  
Hong Kong

**Citigroup Global Markets Asia Limited**

50/F Champion Tower  
Three Garden Road  
Central  
Hong Kong

[REDACTED]

**Legal Advisors to Our Company**

*As to Hong Kong and U.S. laws:*

**Cleary Gottlieb Steen & Hamilton (Hong Kong)**

37th Floor, Hysan Place  
500 Hennessy Road  
Hong Kong

*As to PRC law:*

**Han Kun Law Offices**

9/F, Office Tower C1  
Oriental Plaza, 1 East Chang An Avenue  
Beijing  
PRC

*As to BVI law:*

**Harney Westwood & Riegels**

3501, The Center  
99 Queen’s Road Central  
Hong Kong

**Legal Advisors to the Joint Sponsors and the [REDACTED]**

*As to Hong Kong and U.S. laws:*

**Davis Polk & Wardwell**

18/F, The Hong Kong Club Building  
3A Chater Road  
Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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*As to PRC law:*

**Global Law Office**

15/F, Tower 1  
China Central Place  
No. 81 Jianguo Road, Chaoyang District  
Beijing 100025, PRC

**Auditors and Reporting  
Accountants**

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**Industry Consultant**

**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.**

Room 1018, Tower B  
No. 500 Yunjin Road Xuhui District,  
Shanghai PRC

**Compliance Advisor**

**Anglo Chinese Corporate Finance, Limited**

40th Floor  
Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**[REDACTED]**



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**CORPORATE INFORMATION**

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|   |   |
|---|---|
| <b>Registered Office</b>                                    | Craigmuir Chambers<br>Road Town<br>Tortola, VG1110<br>British Virgin Islands  |
| <b>Principal Place of Business and Head Office in China</b> | AsiaInfo Plaza, Dong Qu<br>10 Xibeiwang Dong Lu<br>Haidian District<br>Beijing 100193<br>PRC  |
| <b>Principal Place of Business in Hong Kong</b>             | 31/F, Tower Two<br>Times Square<br>1 Matheson Street<br>Causeway Bay<br>Hong Kong   |
| <b>Company's Website</b>                                    | <u><a href="http://www.asiainfo.com">www.asiainfo.com</a></u><br><i>(The information on the website does not form part of this [REDACTED])</i>  |
| <b>Joint Company Secretaries</b>                            | <b>Ms. HE Qiongxiu</b><br>No. 262, 1/F<br>No. 46, Nandajie Zhong Guan Cun<br>Haidian District<br>Beijing<br>PRC<br><br><b>Ms. YU Wing Sze</b><br>31/F, Tower Two<br>Times Square<br>1 Matheson Street<br>Causeway Bay<br>Hong Kong        |
| <b>Authorized Representatives</b>                           | <b>Mr. GAO Nianshu</b><br>AsiaInfo Plaza, Dong Qu<br>10 Xibeiwang Dong Lu<br>Haidian District<br>Beijing 100193<br>PRC<br><br><b>Ms. YU Wing Sze</b><br>31/F, Tower Two<br>Times Square<br>1 Matheson Street<br>Causeway Bay<br>Hong Kong |

**CORPORATE INFORMATION**

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|  |  |
|--|--|
| <b>Audit Committee</b>                   | GE Ming (Chairman)<br>ZHANG Ya-Qin<br>ZHANG Liyang   |
| <b>Remuneration Committee</b>            | GAO Jack Qunyao (Chairman)<br>ZHANG Ya-Qin<br>XIN Yuesheng   |
| <b>Nomination Committee</b>              | TIAN Suning (Chairman)<br>GAO Nianshu<br>GAO Jack Qunyao<br>ZHANG Ya-Qin<br>GE Ming  |
| <b>Strategy and Investment Committee</b> | XIN Yuesheng (Chairman)<br>TIAN Suning<br>GAO Nianshu<br>DING Jian   |
|  | <b>[REDACTED]</b>  |
| <b>Principal Bankers</b>                 | <b>East West Bank</b><br>3237 E. Guasti Rd.<br>Ontario, CA 91761<br>United States<br><br><b>China Merchants Bank</b><br><b>Beijing Jianguo Road Sub-branch</b><br>116 Jianguo Road<br>Chaoyang District<br>Beijing<br>PRC<br><br><b>China Merchants Bank</b><br><b>Nanjing Gulou Sub-branch</b><br>4 Beijing East Road<br>Nanjing, Jiangsu Province<br>PRC |

## INDUSTRY OVERVIEW

*The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the [REDACTED], [REDACTED], the Joint Sponsors, [REDACTED], any of our or their respective directors, officers or representatives or any other person involved in the [REDACTED] and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of China. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.*

### SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to conduct market research and analysis of selected industries and prepare a report entitled *Independent Market Research on China Telecom Software Product and Solution Industry*, which is referred to in this [REDACTED] as the Frost & Sullivan Report. Frost & Sullivan is an independent global market research and consulting firm founded in 1961 in New York that offers industry research and market strategies. We were charged RMB630,000 by Frost & Sullivan in connection with its preparation of the Frost & Sullivan Report, which we believe reflects market rates for reports of this type. Our payment of such fee is not contingent upon the results of its research and analysis.

In preparing the Frost & Sullivan Report, Frost & Sullivan conducted detailed primary research which involved in-depth telephone and face-to-face interviews with industry participants and secondary research which involved reviewing annual reports, industry publications and data based on its own research database. Projected data, including market size estimates, were obtained from historical data analysis with reference to macroeconomic data and specific industry-related factors. Frost & Sullivan’s forecasting methodology integrates several forecasting techniques with its internal analytics of critical market elements investigated in connection with its market research work. These elements include, among others, identification of market drivers and restraints and integration of expert opinion. In preparation of the Frost & Sullivan Report, Frost & Sullivan assumed: (i) the social, economic and political environment of PRC is expected to remain stable from 2018 to 2022, and (ii) key industry drivers are expected to continue to affect the market from 2018 to 2022.

Except as otherwise noted, all of the data and forecasts contained in this section have been derived from the Frost & Sullivan Report.

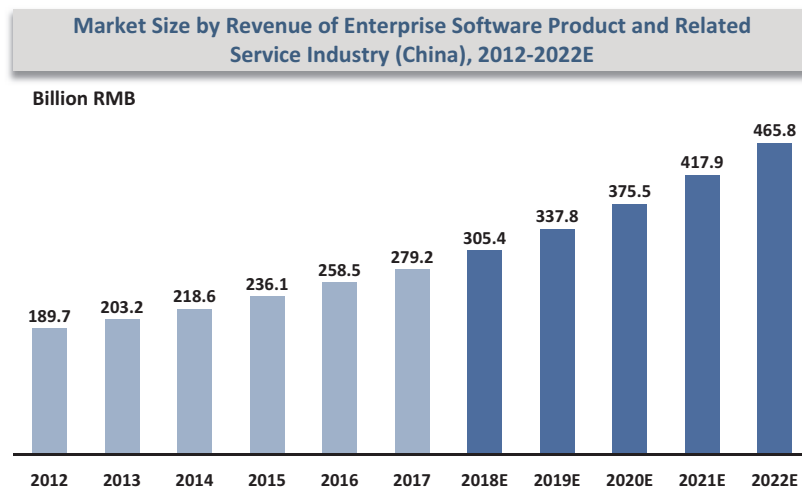
### CHINA’S ENTERPRISE SOFTWARE PRODUCT AND RELATED SERVICE MARKET

Enterprise software products refer to software systems designed to operate in corporate environments, primarily including customer relationship management (CRM) products, charging and billing products, enterprise resource planning (ERP) products, supply chain management (SCM) products, manufacturing operations management (MOM) products, big data products and business

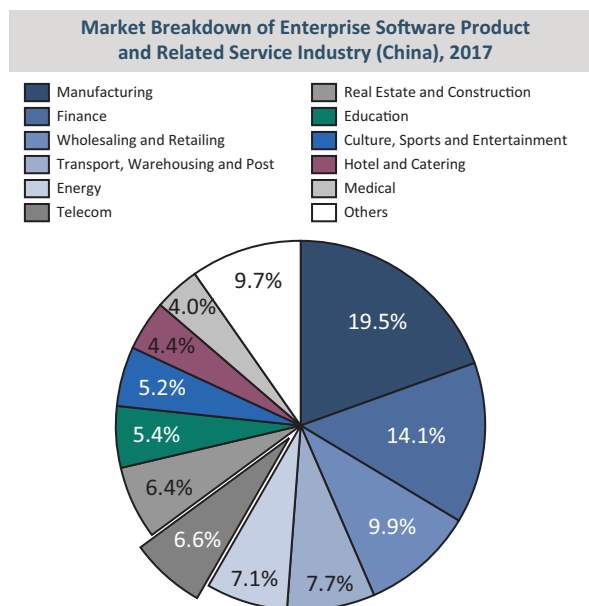
## INDUSTRY OVERVIEW

intelligence (BI) products. Enterprise software services refer to enterprise software related services ranging from system integration and configuration, operation and maintenance to system upgrade and expansion. Enterprise software products and related services are more complex than services targeting individual users and require deep understanding of the relevant enterprises’ business as well as extensive software development capabilities.

As enterprises from a wide variety of industries continue to invest in enterprise software products and related services that enable them to enhance operating efficiency and flexibilities and facilitate effective communication with an expanding customer base, the total market size of China’s enterprise software product and related service market by revenue increased from RMB189.7 billion in 2012 to RMB279.2 billion in 2017, representing a CAGR of 8.0%, and is expected to reach RMB465.8 billion by 2022, representing a CAGR of 11.1% from 2018 to 2022.



Enterprise software products and related services are widely used across different industries in China. The telecom industry contributed 6.6% of China’s enterprise software product and related service market’s market share in terms of 2017 revenue.



## INDUSTRY OVERVIEW

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### Market Drivers and Trends

The key drivers and trends for China’s enterprise software product and related service market include:

**Favorable Industry Policies.** The Chinese government has promulgated numerous favorable policies in recent years, such as (i) the NDRC’s Thirteenth Five Year Plan for the National Economic and Social Development (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》), which sets forth various measures to promote internet as a national strategy and deepen the integration of internet with different sectors, (ii) Guidance of the Ministry of Industry and Information Technology on Accelerating and Promoting Independent Innovation in the Information Industry (《關於加快推進信息產業自主創新的指導意見》), which proposes to enhance independent innovation in the information industry, and (iii) Notice of the Ministry of Finance on Issues concerning Preferential Enterprise Income Tax Policies for the Software and Integrated Circuit Industries (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》), which provides preferential tax treatments for the software industry. These favorable industry policies have accelerated the enhancements and upgrades of enterprise software products and related services and are expected to drive sustainable growth in the enterprise software product and related service market.

**Business Transformation and Digitalization.** To stay competitive in the dynamically-changing digital era, it is essential for Chinese enterprises to achieve business transformation and digitalization and build digital ecosystems which help them interact with customers and business partners and improve performance. As such, there has been an increasing demand for high-performance, mission-critical enterprise software products and related services that enable Chinese enterprises to establish or upgrade their business and operation support systems to accelerate time-to-market, diversify revenue streams, enhance operating efficiencies and achieve cost savings.

**Emerging Technologies.** The emergence of new technologies such as cloud computing, microservices, docker, big data, AI, machine learning, IoT and SDN/NFV have provided Chinese enterprises with opportunities to increase revenue, enhance operating efficiency and/or achieve cost savings. For example, cloud computing technology releases enterprises from the significant costs and complexities associated with establishing and managing on-premise infrastructure, and as a result help them achieve increased business flexibility, faster time-to-market and cost savings. The increased application of big data technologies have enabled enterprises to reduce manual operations and organize their management, production, sales and marketing and other aspects of their business operations in a more intelligent, agile manner. Enterprises are therefore prompted to upgrade or reconstruct their existing IT systems to accommodate these new technology trends, which will in turn accelerate the development and innovation of enterprise software products and related services.

**Customization.** In order to stay competitive in a rapidly changing business environment, Chinese enterprises are in high demand of software that enables real-time response to customer requests and rapid launch of products and related services. Mass market, standardized software is often unable to completely match the unique requirements and characteristics of different enterprises. To maintain a competitive edge, it is essential for enterprise software providers to design, develop and deliver software products tailored to an enterprise’s specific IT and network structure as well as business and operational needs and at the same time offer a comprehensive range of related services that maximize the value of these software products, such as system installation and configuration, operation and maintenance and system upgrades.

## INDUSTRY OVERVIEW

**Mobilization.** Real-time communication and information delivery is key for enterprises to succeed in this information era. With the proliferation of mobile internet and workforces becoming increasingly mobile, there has been an increasing demand for enterprise software that enables real-time, reliable and efficient communication both internally and with customers via mobile channels, allowing workers to always have access to customer and other data and stay connected while working on the move. Software providers with extensive telecom-related knowledge and expertise are therefore likely to gain a competitive edge and receive higher level of recognition.

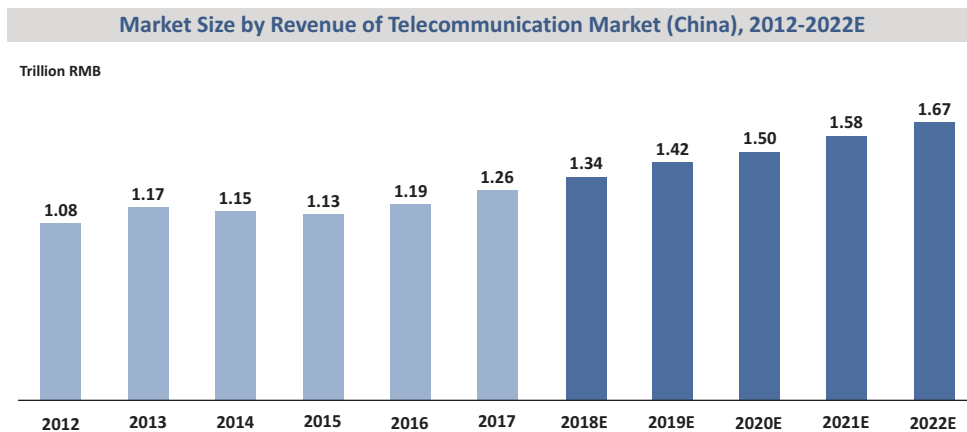
**Localization.** Cloud technologies are gradually being adopted by Chinese enterprises to achieve increased operating flexibility, faster time-to-market and cost savings. Compared to public clouds, private clouds are quickly gaining popularity among Chinese enterprises, especially large Chinese enterprises who demand utmost level of privacy of business data, because of their localized deployment, greater privacy, more simplified management and maintenance and more reliable performance. The wider adoption of private clouds among Chinese enterprises is expected to fuel the future development of enterprise software products that can be deployed on private clouds.

### CHINA’S TELECOM SOFTWARE PRODUCT AND RELATED SERVICE MARKET

#### China’s Telecom Industry

China’s telecom industry is dominated by China Mobile, China Unicom and China Telecom. China Tower is also a major player in this industry. Chinese telecom operators provide a wide variety of telecom services ranging from traditional fixed and mobile phone services to value-added services.

The market size of the telecom industry in China grew from RMB1.08 trillion in 2012 to RMB1.26 trillion in 2017, representing a CAGR of 3.2%. As Chinese telecom operators continue to compete intensively on, and invest significantly in, product upgrades and 4G and 5G network developments, the market size of China’s telecom industry is projected to grow at a CAGR of 5.7% from 2018 to 2022, reaching RMB1.67 trillion in 2022.



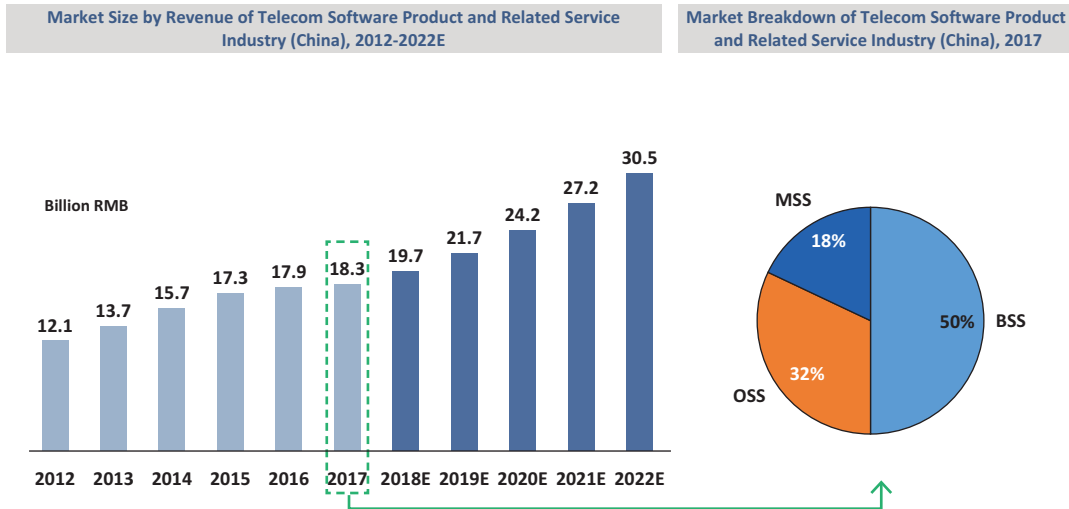
#### Overview of China’s Telecom Software Product and Related Service Market

Telecom software products and related services are designed to provide telecom operators with business capability and support their daily operations. The market size of China’s telecom software product and related service market by revenue reached RMB18.3 billion in 2017, representing a CAGR of 8.6% from 2012 to 2017. The demand for telecom software products is forecasted to experience



## INDUSTRY OVERVIEW

continuous growth, as Chinese telecom operators continue to expand their business and conduct system upgrades and expansions to keep abreast of new technology trends. In addition, to cater to each enterprise’s specific business model and customer needs, tailored operation and integration services are becoming increasingly favored by Chinese telecom operators. As a result, the market size of China’s telecom software product and related service market by revenue is expected to amount to RMB30.5 billion by 2022, representing a CAGR of 11.5% from 2018 to 2022.



Telecom software products and related services can be divided into the following three categories:

- **BSS products and services.** BSS products and services refer to software products and services that telecom operators use to run their business operations towards customers, such as CRM, charging and billing and big data products and services;
- **OSS products and services.** OSS products and services refer to software products and services that telecom operators use to manage their networks so as to better serve customers, such as network management and network optimization products and services; and
- **MSS products and services.** MSS products and services refer to software products and services that telecom operators use to manage various domains of their businesses, such as financial management and procurement management products and services.

In 2017, the market size of China’s BSS, OSS and MSS software products and related services markets by revenue accounted for 50%, 32% and 18% of China’s telecom software product and related service industry, respectively.

### Entry Barriers

The key barriers for entering into China’s telecom software product and related service market include:

**Mission-Critical Systems.** Telecom operators require high-performance, mission-critical software systems which are able to address their increasingly complex business and operational needs and serve as vital connections between these telecom operators and their customers. Only telecom

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software product and related service providers with a large amount of advanced, proprietary technologies (such as real-time data processing, concurrent data processing, distributed computing and big data analysis) are familiar with China’s telecom industry and telecom operators’ business and technology environments are able to develop and deploy these mission-critical systems.

**Complex Integration.** Telecom software systems are often intricately connected and complement each other. For instance, a telecom operator’s big data platform analyzes data generated from its CRM and charging & billing systems, and extract value and intelligence from these data to optimize the operations of the CRM and charging & billing systems. As such, a telecom operator generally prefers to source telecom software product and related services from the same vendor in order to maintain system continuity and compatibility and minimize the risks and costs related to integrating disparate systems from multiple vendors.

**Long-Term Relationship.** Telecom operators tend to stick with telecom software product and related service providers with whom they have worked on a long-term basis. These telecom software and product service providers have in-depth understanding of the telecom operators’ business models and are able to provide customized products and related services based on their demands. In addition, these providers are often responsible for providing ongoing operation and maintenance services for the software systems deploying their products, which allow them to remain in close contact with the telecom operators to secure additional cooperation opportunities. This long-term, trust relationship makes it difficult for new entrants to replace the existing telecom software product and related service providers in a short period of time.

**Participation in Technical Standard Formulation.** Telecom operators have formulated detailed technical standards for their BSS/OSS and other telecom software systems. Leading telecom software product and related service providers are often invited to participate in the formulation of these technical standards, which enables them to direct their R&D efforts and formulate product roadmaps accordingly, effectively setting them apart from new entrants who may not have a thorough understanding of these technical standards when developing their products and related services.

### Market Drivers and Trends

The key drivers and trends for China’s telecom software product and related service market include:

**Business Model Innovation.** Traditional telecom services primarily include voice call and text message services, which only telecom operators are able to provide, enabling them to dominant the telecom industry. However, with the proliferation of the internet in China, the overall telecom industry value chain and ecosystem is undergoing fundamental changes: smart terminal manufacturers can now directly face customers and content and service providers are beginning to expand their roles across the telecom industry value chain. In response to these changes, telecom operators are innovating their business model in order to cooperate with business partners across the telecom industry value chain (such as the establishment of specialized companies and divisions focusing on specific operational aspects or customer groups), generating substantial demands for telecom software products and related services tailored to the internet business model.

**Technological Innovation.** The emergence and deployment of new technologies such as artificial intelligence, big data analytics, IoT, SDN/NFV, cloud computing and docker is continuously reinventing the way telecom operators operate. For example, the application of artificial intelligence

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technologies help telecom operators provide better customer services through data analytics, data mining and customer behavior predictions. Telecom operators are propelled to upgrade their existing business and operation support systems or building new ones in order to adapt to these emerging technologies, generating significant demand for corresponding software products and services. For example, access through a massive amount of smart terminals would require telecom operators to have higher data processing capabilities, which in turn prompts telecom software product and related service providers to develop big data products with higher data processing capabilities.

**Reorganization of Network Infrastructure.** Telecom operators used to rely solely on communication technology (CT) to provide traditional telecom services and have constructed network infrastructure accordingly. The continuous development of network technologies such as SDN/NFV has provided opportunities for enterprises to operate in a more agile and highly efficient manner by integrating CT and IT. Providers of telecom software products and services that facilitate telecom operators’ reorganization of network infrastructure to a converged CT and IT network infrastructure are therefore expected to secure additional business opportunities.

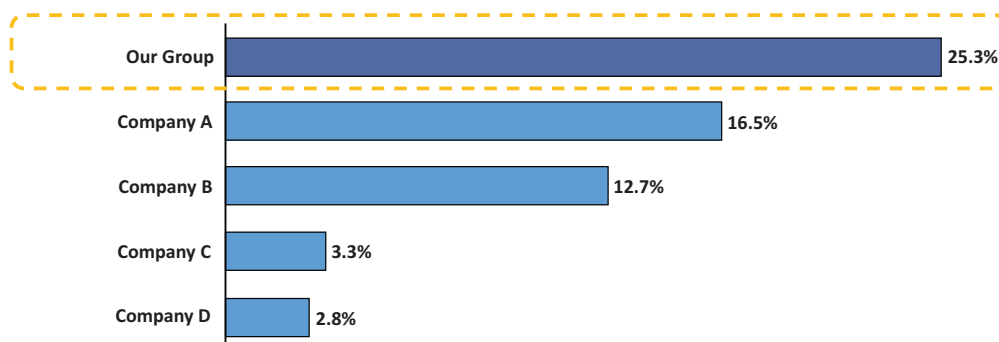
**5G and Internet of Things.** Telecom operators are prompted to upgrade their business and operation support systems in order to adapt to new business models powered by 5G and Internet of Things. For example, 5G will enable different pricing models for different terminals, which would generate substantial demand for charging & billing products with more complex capabilities. Telecom operators will also require software platforms with larger scale and greater computing capabilities in order to adapt to the proliferation of Internet of Things, creating business opportunities for providers of corresponding telecom software products.

**Digital Transformation.** Digital transformation is the main component for the future development of telecom industry in China. Cloud computing will continue to revolutionize the way telecom operators operate, and telecom operators will continue to move certain aspects of their business operations into the cloud to achieve centralized management of resources and significant cost savings. In addition, big data technologies will be widely applied to extract information and intelligence extracted from massive amount of data. Demand for telecom software products and related services facilitating this digital transformation will continue to rise.

### Competitive Landscape

The market size of China’s telecom software product and related service market by revenue reached RMB18.3 billion in 2017 and the top five players accounted for an aggregate of 60.6% of the market share as measured by revenue in 2017.

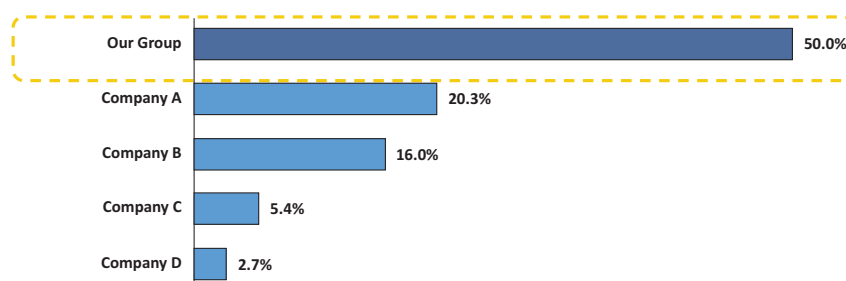
Top 5 Telecom Software Product and Related Service Providers by Revenue (China), 2017



## INDUSTRY OVERVIEW

The market size of China’s BSS software product and related service market by revenue reached RMB9.2 billion in 2017 and the top five players accounted for an aggregate of 94.4% of the market share as measured by revenue in 2017.

Top 5 BSS Software Product and Related Service Providers by Revenue (China), 2017



## CHINA’S NON-TELECOM SOFTWARE PRODUCT AND RELATED SERVICE MARKET

Non-telecom software products and related services refer to enterprise software products and related services developed for the finance, manufacturing, medical, retail, energy and other non-telecom sectors:

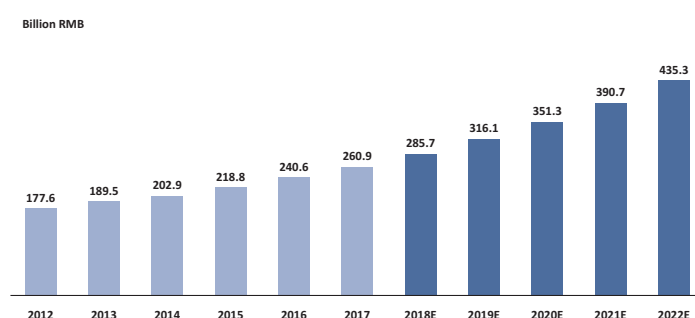
- **Finance sector.** Enterprise software systems for the finance sector include deposit management, loan management, risk management, foreign exchange trading and other application systems. These systems are highly integrated so that they can be accessed through any online or offline channel, such as bank counter, online banking or telephone banking. CRM systems are crucial to the finance sector as they analyze unstructured customer data, create comprehensive customer profiles and help enterprises in the finance sector expand their customer base and conduct precision marketing.
- **Manufacturing sector.** Enterprise software systems for the manufacturing sector evolve around ERP systems, and include CRM, technical expertise management, finance management and SCM systems.
- **Medical sector.** In addition to conventional office automation (OA) systems, enterprise software systems in the medical sector include CRM systems, product lifecycle management (PLM) systems and ERP systems.
- **Wholesale and retail sector.** Enterprise software systems in the wholesale and retail sector mainly include CRM systems, ERP systems and SCM systems.
- **Energy sector.** Enterprise software systems in the energy sector focuses on the security of the production process, and primarily include ERP systems, operation and production management systems and supervision systems. ERP systems manages equipment, commodities and materials in production procedures.
- **Postal sector.** Enterprise software systems in the postal sector are deployed around CRM systems, campaign management systems, channel management systems and ERP systems. Management supporting systems such as visual operation and maintenance management systems, cost management platform database systems and remote centralized monitoring systems are also widely used in this sector.
- **Media sector.** Software products such as CRM and ERP products enable media enterprises, especially large-size broadcasting and cable TV groups to achieve convenient

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information communication, effective, paperless office and strengthen control of group companies.

In 2017, the market size of China’s non-telecom software product and related service market by revenue reached RMB260.9 billion, representing a CAGR of 8.0% from 2012 to 2017. With the development of the Chinese economy and the blooming of numerous industries, there will be rising demand for enterprise software system upgrades to keep abreast with the latest information technology. The demand for non-telecom software products such as ERP, HRM, CRM and billing system is forecasted to experience continuous growth in the future. According to the Frost & Sullivan Report, the market size of China non-telecom software product and related service market by revenue is expected to reach RMB435.3 billion by 2022, representing a CAGR of 11.1% from 2018.

Market Size by Revenue of Non-Telecom Software Product and Related Service Industry (China), 2012-2022E



### Entry Barriers

The key barriers for entering into China’s non-telecom software product and related service market include:

**Customer stickiness.** Replacing an enterprise’s entire existing back-end system is costly and time-consuming, therefore enterprises tend to work with the same software and related service providers in terms of system upgrade and expansion instead of switching to new providers. Enterprises also exhibit high brand loyalty, especially toward leading software product and related service providers with nationwide coverage. It requires significant capital investment as well as investments in building sales and marketing, customer services and other capabilities for new entrants to attract customers that have already established deep relationship with leading providers.

**Technology barrier.** Enterprises prefer to work with software and related service providers that are able to provide advanced software products and end-to-end, professional services, which require strong technology and R&D capabilities. It takes significant time and resources for new entrants to build up such technology capabilities.

**Deep understanding of industry- and company-specific needs.** The needs and requirements of non-telecom enterprises in terms of software products and related services differ significantly from industry to industry. Software product and related service providers who have accumulated deep insights of non-telecom enterprises’ industry environment and business models over years of collaboration with these enterprises are able to provide tailored software products and related services catering to the enterprises’ industry- and company-specific needs and requirements. Such capabilities are difficult for new entrants to replicate.

## INDUSTRY OVERVIEW

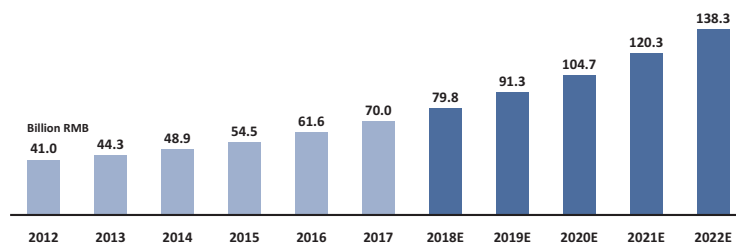
### CHINA’S DATA-DRIVEN OPERATION SERVICE MARKET

Data-driven operation services refer to the comprehensive data operational analytics services provided for the purpose of analyzing customer behavior and increasing operational efficiency and customer value by leveraging the service providers’ strong data analytical skills, deep insights in operation scenarios and extensive industry expertise and technical capabilities.

The market size of China’s data-driven operation service market by revenue has experienced strong growth in recent years and reached RMB70.0 billion in 2017, representing a CAGR of 11.3% from 2012 to 2017. The market size of China’s data-driven operation service market by revenue is expected to reach RMB138.3 billion in 2022, representing a CAGR of 14.7% from 2018 to 2022. The key drivers behind this strong growth include:

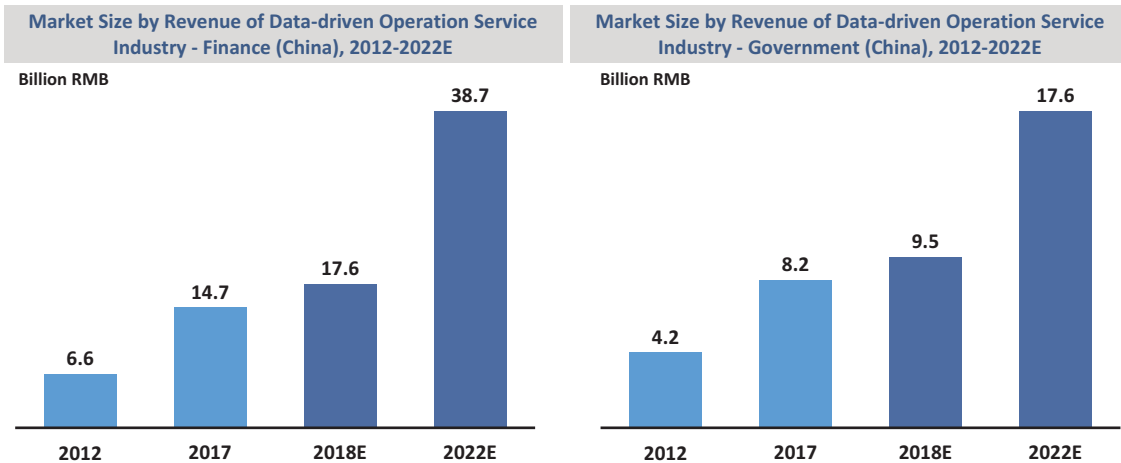
- there are rising demands for enterprises across industries to increase the value of their existing customers (including telecom operators’ government and enterprise customers), attract new customers and explore new business opportunities. This requires seamless collaboration with enterprise software product and service providers with strong data analytics and service capabilities and extensive industry know-how that are able to provide data-driven operation services that more efficiently monetize their data and resources, such as more comprehensive analysis of customer profiles, characteristics and lifecycles that increases sales and marketing efficiency; and
- over years of collaboration with enterprises, enterprise software product and service providers have cumulated extensive data analytics and service capabilities and industry know-how. The rendering of data-driven operation services enables enterprise software product and service providers to deepen their relationship with enterprises, adapt to new business models in the dynamically changing digital world and diversify both theirs and the enterprises’ revenue streams.

Market Size by Revenue of Data-driven Operation Service Industry (China), 2012-2022E



## INDUSTRY OVERVIEW

The finance and government sectors have experienced increased demand in data-driven operations services in the past few years, a trend that is expected to continue. In 2017, data-driven operation service revenues contributed by the finance and government sectors reached RMB14.7 billion and RMB8.2 billion, respectively, accounting for 21.0% and 11.7% of the total data-driven operation services revenue, respectively. Data-driven operation service revenue contributed by these two sectors are projected to grow at a CAGR of 21.8% and 16.7% from 2018 to 2022, respectively, reaching RMB38.7 billion and RMB17.6 billion in 2022, respectively.





## REGULATORY OVERVIEW

### LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC is governed by the Company Law of the PRC (《中華人民共和國公司法》), which was promulgated by the Standing Committee of the National People’s Congress of the PRC (全國人民代表大會常務委員會) (“SCNPC”) on December 29, 1993 and came into effect on July 1, 1994. The Company Law of the PRC was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 (the latest revision became effective on March 1, 2014). The Company Law of the PRC generally governs two types of companies, namely limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of shareholders of a limited liability company or a joint stock limited company is limited to the amount of registered capital they have contributed. The Company Law of the PRC shall also apply to foreign-invested companies in form of limited liability company or joint stock limited company. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labor matters of foreign invested companies are regulated by, in the case of a wholly foreign-owned enterprise (“WFOE”), the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986 by the National People’s Congress of the PRC (全國人民代表大會) (“NPC”) and amended on October 31, 2000 and September 3, 2016 by the SCNPC (the latest revision became effective on October 1, 2016), and the Regulations for the Implementation of the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated on December 12, 1990 by the Ministry of Foreign Trade and Economy and amended by the State Council on April 12, 2001 and February 19, 2014 (the latest revision became effective on March 1, 2014). Pursuant to the Wholly Foreign-owned Enterprises Law and its implementation, to establish a WFOE, an investor shall make an application to and seek the prior approval from the Ministry of Commerce of the PRC (中華人民共和國商務部) (“MOFCOM”) or the competent regional commercial bureau, so as to the changes of any achieved approval or the status of such wholly foreign-owned enterprises.

Pursuant to the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) promulgated on October 8, 2016 and amended on July 30, 2017 and June 29, 2018 (the latest version became effective on June 29, 2018), provide that the establishment and the change of a WFOE does not involve the implementation of special access administrative measures prescribed by the state, the former approval items as stipulated by foreign investment laws and regulations, including those as described above, such as establishing a WFOE, a separation, merger or other major change, are subject to record-filing management only.

The Provisions on Guiding Foreign Investment Direction (《指導外商投資方向規定》), which was promulgated by the State Council on February 11, 2002 and became effective on April 1, 2002, categorizes all foreign-invested projects into encouraged, permitted, restricted and prohibited projects. The Catalog for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) lists the categories of encouraged, restricted, and prohibited foreign-invested projects, those not listed are permitted foreign-invested projects. The current effective Catalog for the Guidance of Foreign Investment Industries was jointly promulgated by MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (“NDRC”) on June 28, 2017 and became effective on July 28, 2017.

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Foreign-invested enterprises may also invest and establish subsidiaries in the PRC, which should comply with the Company Law of the PRC, the Interim Provisions on Investment by Foreign-Invested Enterprises in China (《關於外商投資企業境內投資的暫行規定》) promulgated by the MOFCOM and the SAIC on July 25, 2000 and amended by MOFCOM on October 28, 2015 (the latest version became effective on October 28, 2015) and other relevant laws and regulations.

### LAWS AND REGULATIONS RELATING TO THE SOFTWARE INDUSTRY

#### Major Industry Policies

On June 24, 2000, the State Council of the PRC promulgated Several Policies on Encouraging the Development of Software and Integrated Circuit (IC) Industries (《鼓勵軟件產業和集成電路產業發展的若干政策》) (“**No. 18 Policy**”). Strong support was also provided for the development of the software industry by formulating policies regarding investment and financing, tax, industrial technology, export, income distribution, human talent, procurement, accreditation of software enterprises, protection of intellectual property rights, industry organizations and industry administration.

On January 28, 2011, the State Council of the PRC promulgated Several Policies on Further Encouraging the Development of the Software and Integrated Circuit (IC) Industries (《進一步鼓勵軟件產業和集成電路產業發展的若干政策》) (the “**No. 4 Policy**”), which pointed out that the software industry is a strategic emerging industry of the state and an important foundation for national economic and social informationization. It proposed to continue to improve the incentive measures and clarify the orientation of policies, so as to optimize the environment for industrial development, enhance technology innovation capabilities, and increase the quality and level of industrial development. Meanwhile, strong support would continue to be provided for the development of the software industry by formulating policies regarding tax, investment and financing, R&D, import and export, human resources, protection of intellectual property rights and marketing.

On January 25, 2017, NDRC promulgated Announcement of NDRC [2017] No.1-Guiding Catalog of Key Products and Services in Strategic Emerging Industries (《國家發展和改革委員會公告2017年第1號—戰略性新興產業重點產品和服務指導目錄》), which confirms “new software and service” as a strategic emerging industry.

#### Regulations on Software Enterprises Certification

On August 9, 2012, the NDRC, Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (“**MIIT**”), the Ministry of Finance of the PRC (中華人民共和國財政部) (“**MOF**”), MOFCOM, and the State Administration of Taxation (中華人民共和國國家稅務總局) (“**SAT**”) promulgated and implemented Trial Measures for the Administration over the Certification of Key Software Enterprises and Integrated Circuit (IC) Design Enterprises under State Planned Layout (《國家規劃佈局內重點軟件企業和集成電路設計企業認定管理試行辦法》) (the “**No. 2413 Measure**”). According to the No. 2413 Measure, key software enterprises under the state plan layout could go through tax reduction procedures with the competent tax authorities to enjoy preferential tax policies pursuant to the Enterprise Income Law of the PRC (《中華人民共和國企業所得稅法》) and its implementing regulations and the Administration of Tax Collection of the PRC (《中華人民共和國稅收徵收管理法》) and its implementing rules.

According to the Decision of the State Council on Canceling Non-administrative Licensing Examination and Approval Items (Guo Fa [2015] No. 27) (《國務院關於取消非行政許可審批事項的

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決定》(國發[2015]27號)) (the “No. 27 Decision”), which became effective on May 10, 2015, certification of key software enterprises and Integrated Circuit (IC) design enterprises as an item of administrative examination and approval has been canceled.

### Regulations on High and New Technology Enterprises Recognition

Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) (the “No. 32 Measure”), which was promulgated on April 14, 2008 and amended on January 29, 2016 jointly by the Ministry of Science and Technology of the People’s Republic of China (中華人民共和國科學技術部) (“MST”), MOF and SAT (the latest revision became effective on January 1, 2016), and the Guidelines on the Administration of Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》), which was promulgated on July 8, 2008 and amended on June 22, 2016 jointly by MST, MOF and SAT (the latest revision became effective on January 1, 2016), the recognized high and new enterprises under the No.32 Measure may apply for preferential tax policies in accordance with the Enterprise Income Law of the PRC (《中華人民共和國企業所得稅法》) and its implementing regulations and the Administration of Tax Collection of the PRC (《中華人民共和國稅收征收管理法》) and its implementing rules.

### Regulations on Software Copyright Protection

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) promulgated by the SCNPC on September 7, 1990, implemented on June 1, 1991 and amended on October 27, 2001 and February 26, 2010 (the latest revision became effective on April 1, 2010), computer software is covered by copyright protection.

Pursuant to the Regulations for the Protection of Computer Software (《計算機軟件保護條例》) promulgated by the State Council of the PRC (中華人民共和國國務院) on December 20, 2001, implemented on January 1, 2002 and amended on January 8, 2011 and January 30, 2013 (the latest revision became effective on March 1, 2013), PRC nationals, legal persons or other entities enjoy the copyright of the software they have developed, regardless of whether such software has been published. Copyright covers the right of publication, authorship, right of modification, right of reproduction, right of distribution rights, right of rent, right of translation, etc. Software copyright arises from the date of completion of software development. The protection period of the software copyright of a natural person shall be the entire life of the natural person and 50 years after his/her death, ending on December 31 of the fiftieth year after the death of the natural person. The protection period of the software copyright of a legal person or other units shall be 50 years, ending on December 31 of the fiftieth year after the first publication of the software. Software which has not been published for 50 years since the date of completion of software development shall not be under protection. For computer software copyright infringement, the infringer may be requested to bear civil liability by means of ceasing infringements, eliminating negative effects, making an apology, or compensating for losses.

According to the Computer Software Copyright Registration Measures (Order of the National Copyright Administration of the PRC (No. 1)) (《計算機軟件著作權登記辦法》(國家版權局令第1號)) (the “NCA No. 1 Order”) promulgated and implemented by the National Copyright Administration of the PRC (中華人民共和國國家版權局) on February 20, 2002, the PRC encourages software registration and gives particular protection for registered software. The NCA is in charge of

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the registration and management of software copyrights across the state, and has authorized Copyright Protection Center of China to be the agency for software registration. Applicants can apply for software copyright registration, and registration of exclusive licensing contracts and assignment contracts of software copyright with Copyright Protection Center of China.

The applicant for the registration of software copyright shall be the copyright owner of the said software, or the natural person, legal person or other organization that inherits, acquires or receives the software copyright. The NCA No. 1 Order shall only be applicable when the applicant or one of the applicants is a foreigner or stateless person.

### LAWS AND REGULATIONS RELATING TO TENDER AND PROCUREMENT

Pursuant to the Tendering and Bidding Law of the PRC (《中華人民共和國招標投標法》) which was promulgated by the SCNPC on August 30, 1999, implemented on January 1, 2000 and amended on December 28, 2017 (the latest revision became effective on December 28, 2017), construction projects, such as large infrastructure and public utility projects that concern public interests and security, projects invested wholly or partly by state-owned funds or financed by the state and projects using loans or aid funds from international organizations or governments of other countries, shall be subject to bid invitation. Tenders are classified into two categories: public tender and invited tender.

In addition, the Regulations for the Implementation of the Law on Tendering and Bidding (《中華人民共和國招標投標法實施條例》) promulgated by the State Council of the PRC on December 20, 2011 and implemented on February 1, 2012, and amended on March 1, 2017 and March 19, 2018 (the latest revision became effective on March 19, 2018), further provides that when state-owned funds hold a controlling interest or play a leading role in the above specified types of construction projects, public tender shall be adopted. However, invited tender is permitted when due to sophisticated technology of the project, special requirements or constraints from the natural environment, only a few potential bidders are available for selection; or when the cost of public invitation shall become an excessive proportion of the consideration of the project.

The Government Procurement Law of the PRC (《中華人民共和國政府採購法》), which was promulgated by the SCNPC on June 29, 2002 and took effect on January 1, 2003, and amended on August 31, 2014 (the last revision became effective on August 31, 2014), provides that public invitation shall be the principal method of government procurements. “Government procurement” refers to the purchasing activities conducted with fiscal funds by government department, institutions and public organizations at all levels, where the goods, construction and services concerned are in the centralized procurement catalog compiled in accordance with law or where the fair value of the goods, construction or services exceeds the respective prescribed procurement thresholds.

The Government Procurement Law of the PRC primarily regulates the activities of the purchasers, their agencies and employees in the government procurement process. For the suppliers, misconduct such as submitting false information, colluding with other parties or bribing in the government procurement process, are prohibited.



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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) promulgated by the SCNPC on September 7, 1990, implemented on June 1, 1991 and amended on October 27, 2001 and February 26, 2010 (the latest revision became effective on April 1, 2010) and the Implementing Regulations of the Copyright Law of the PRC (《中華人民共和國著作權法實施條例》) promulgated by the State Council of the PRC on January 30, 2013 and implemented on March 1, 2013, the PRC nationals, legal persons, and other organizations shall, enjoy copyright in their works, whether published or not, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The copyright owner enjoys various kinds of rights, including right of publication, right of authorship and right of reproduction.

Any work of a foreigner or stateless person which acquires copyright under an agreement concluded between the PRC and the country to which the author belongs or in which the author permanently resides, or under an international treaty to which both countries are parties, shall be protected by this Law. Any work of a foreigner or stateless person published for the first time and within the territory of the PRC shall acquire copyright in accordance with the relevant rules.

#### Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by the SCNPC on March 12, 1984 and amended on September 4, 1992, August 25, 2000, December 27, 2008 (the latest revision became effective on October 1, 2009) and the Implementing Regulations of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated by the State Council of the PRC on January 9, 2010 and implemented on February 1, 2010, there are three types of patents, which are invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for 10 years, in each case commencing on their respective application dates. Upon the granting of an invention or a utility model patent, unless otherwise specified, no organization or individual may exploit the patent without licensing from the patentee, i.e., they may not, for the purposes of production and business operation, produce, use, offer to sell, sell, or import the patented products, nor use the patented method to produce, use, offer to sell, sell or import products that are acquired directly through the patented method. Upon the granting of a design patent, no organization or individual may exploit the patent without licensing from the patentee, i.e., they may not produce, offer to sell, sell or import the design patent products for the purposes of production and business operation. Where the infringement of patent is determined, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, pay damages, etc.

#### Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) promulgated by the SCNPC on August 23, 1982 and amended on February 22, 1993, October 27, 2001 and August 30, 2013 (the latest revision became effective on May 1, 2014) and the Implementing Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) promulgated by the State Council of the PRC on August 3, 2002 and amended on April 29, 2014 (the latest revision became effective on May 1, 2014), a registered trademark means a trademark that has been approved by and registered with the trademark office, including goods marks, service marks, collective marks

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## REGULATORY OVERVIEW

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and certification marks. A registered trademark is valid for 10 years commencing on the date of registration approval. Any of the following acts shall be deemed an infringement upon the right to the exclusive use of a registered trademark, including (i) using a trademark which is identical with or similar to the registered trademark on the same or similar commodities without authorization; (ii) selling the commodities that infringe upon the right to the exclusive use of a registered trademark; (iii) forging, manufacturing the marks of a registered trademark of others without authorization, or selling the marks of a registered trademark forged or manufactured without authorization; (iv) altering another party’s registered trademark without authorization and selling goods bearing such altered trademark; (v) providing convenience for or even help others to infringe the exclusive right to use a registered trademark on purpose; and (vi) causing other damages to the right to the exclusive use of a registered trademark of another person,.

### REGULATIONS ON INFORMATION SECURITY

On November 7, 2016, Standing Committee of the PRC National People’s Congress published Cyber Security Law of the PRC (《中華人民共和國網路安全法》), or the Cyber Security Law, which took effective on June 1, 2017 and requires network operators to perform certain functions related to cyber security protection and the strengthening of network information management. For instance, pursuant to the Cyber Security Law, network products and services providers who conduct business and provide services shall comply with laws and regulations and to protect cybersecurity, effectively respond to cybersecurity incidents, prevent illegal and criminal activities committed on the network, and maintain the integrity, confidentiality and availability of network data. Network products and services shall comply with the compulsory requirements of the relevant national standards. What’s more, under the Cyber Security Law, network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of PRC and their purchase of network products and services that may affect national securities shall be subject to national cybersecurity review. On May 2, 2017, the Cyberspace Administration of China issued a trial version of the Measures for the Security Review of Network Products and Services (Trial) (《網路產品和服務安全審查辦法(試行)》), which took effective on June 1, 2017, to provide for more details rules regarding cybersecurity review requirements.

### REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends of foreign-invested enterprises include the PRC Company Law (《中華人民共和國公司法》), the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), and the Regulations for the Implementation of the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》). Under these laws and regulations, WFOE in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, WFOE in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. WFOE may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

### LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE CONTROLS

The Foreign Exchange Administrative Regulations of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council of the PRC on January 29, 1996, became effective

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on April 1, 1996 and was amended on January 14, 1997 and August 5, 2008 (the latest revision became effective on August 5, 2008), forms an important legal basis for foreign exchange supervision in the PRC. RMB is freely convertible for payments of current account items such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital expenditure items such as direct investment, loans or investments in securities outside the PRC unless the approval of the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) (“SAFE”) or its local counterparts is obtained in advance. SAFE approval is required for the retention or sale of foreign exchange income in the capital accounts to financial institutions engaged in the settlement and sale of foreign exchange except where such approval is not required under the relevant rules and regulations. Any foreign exchange payment from capital account shall, in accordance with provisions enacted by the foreign exchange administrative department of the State Council of the PRC, be made out of the payer’s own foreign exchange funds with valid documents, or be made with foreign exchange funds purchased from any financial institution engaged in the foreign exchange settlement and sales business. Where the foreign exchange payment requires the approval from the foreign exchange administrative authority, the payer must obtain such approval before making the payment.

On October 21, 2005, the SAFE issued the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in the Financing and Return on Investment Conducted by PRC Residents via Special Purpose Vehicles outside the PRC (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 75”), which became effective as of November 1, 2005. SAFE Circular 75 and the related implementation rules state that PRC residents, whether natural or legal persons, must register with the relevant local SAFE branch prior to establishing or taking control of an offshore entity established for the purpose of overseas equity financing with onshore assets or equity interests held by them. The term “PRC natural person residents” as used in the SAFE Circular 75 includes all PRC citizens and all other natural persons, including foreigners, who habitually reside in China for economic benefits. PRC residents are required to complete registration alteration formalities with the local SAFE branch upon (i) transfer of equity interests or assets of an onshore enterprise to the offshore entity, or (ii) subsequent overseas equity financing by such offshore entity. PRC residents are also required to complete registration alteration or filing with the local SAFE branch within 30 days as of the occurrence of any material change in the shareholding or capital of the offshore entity, such as changes in share capital, share transfers and long-term equity or debt investments, and provision of security. PRC residents who have already incorporated or gained control of offshore entities that have made onshore investment in China before SAFE Circular 75 was promulgated must register their shareholding in the offshore entities with the local SAFE branch on or before March 31, 2006. SAFE Circular 75, PRC residents are further required to repatriate back into PRC all of their dividends, profit or capital gains obtained from their shareholdings in the offshore entity within 180 days as of their receipt of such dividends, profit or capital gains. The registration and filing procedures under SAFE Circular 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholder loans, or capital outflow to the offshore entity, such as the payment of profit or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

On July 4, 2014, the SAFE promulgated SAFE Circular 37, which replaced SAFE Circular 75. The SAFE Circular 37 applies to PRC residents, including both PRC institutions and PRC individual residents (collectively the “PRC Resident”), who engage in offshore investment and financing and reverse investment activities via special purpose vehicles (the “SPV”). An SPV is an overseas



## REGULATORY OVERVIEW

enterprise which is directly established or indirectly controlled by a PRC Resident for the purposes of investment and financing with its lawful domestic enterprise assets or interests, or its lawful overseas assets or interests. Reverse investment is referred to the direct investment activities of a PRC Resident directly or indirectly via an SPV, i.e. establishing foreign-invested enterprises or projects within the territory of the PRC by ways such as newly establishment or mergers and acquisitions, etc., and the activities of obtaining interests such as ownership, control, operation management, etc. Pursuant to the SAFE Circular 37, (a) a PRC Resident must register with the local SAFE branch before contributing assets or equity interests in an SPV, that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the SPV, including a change in the SPV’s PRC Resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV’s registered capital, share transfer or swap, merger or division and so on, or other similar significant change development. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties. If a non-listed SPV grants equity-based incentives to its directors, supervisors, senior officers in the domestic enterprise directly or indirectly controlled by it, as well as other employees in employment or labor relations with the company by using the company’s stock rights or options, the relevant domestic individual residents may apply for going through foreign exchange registration of a SPV before exercising its rights.

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

## LAWS AND REGULATIONS RELATING TO STOCK INCERTIVE PLANS

The SAFE promulgated the Circular of the SAFE on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知》) (the “**Stock Option Rules**”) on February 15, 2012. Pursuant to the Stock Option Rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges based on the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares granted under the stock incentive plans and dividends distributed by the overseas-listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. Under the Circular of the SAT on Issues Concerning

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

### LAWS AND REGULATIONS RELATING TO TAXATION

#### Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008 and became effective on January 1, 2009, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

Business tax was abolished pursuant to the Decision of the State Council to Repeal the Provisional Regulations of the PRC on Business Tax and Amend the Provisional Regulations of the PRC on Value-added Tax (《國務院關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》) promulgated on November 19, 2017.

#### Value-Added Tax

According to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated by the State Council of the PRC on December 13, 1993 and amended on November 5, 2008, February 6, 2016 and November 19, 2017 and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) promulgated by the MOF on December 25, 1993 and amended by the MOF and SAT on December 15, 2008 and amended by the MOF on October 28, 2011 (the latest revision became effective on November 1, 2011), all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, the sale of services, intangible assets or immovable properties and the importation of goods within the territory of the PRC must pay value-added tax.

On October 13, 2011, the MOF and SAT issued Notice of the MOF and SAT on VAT Policies Applicable to Software Products (《財政部、國家稅務總局關於軟件產品增值稅政策的通知》), which provided that after the levy of VAT on software products self-developed and self-produced by general VAT taxpayers at the statutory rate of 17%, the part with the actual VAT burden exceeding 3% may enjoy the “immediate refund of VAT levied” policy.

Effective on November 16, 2011, the MOF and the SAT implementing the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改征增值稅試點方案》) (the “VAT Pilot Program”), which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the implementation circulars released by the MOF and the SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. And the research, development and technology services and information

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technology services included in the VAT Pilot Program are subject to the VAT tax rate of 6%. According to the Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部、國家稅務總局關於全面推開營業稅改征增值稅試點的通知》) announced by the MOF and the SAT which became effective on May 1, 2016, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of the PRC are required to pay value-added tax instead of business tax.

### Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which was promulgated by the NPC on March 16, 2007 and became effective on January 1, 2008 and amended on February 24, 2017, and the Enterprise Income Tax Implementation Regulations of the PRC (《中華人民共和國企業所得稅法實施條例》) (“EITIR”), which was promulgated by the State Council of the PRC on December 6, 2007 and became effective on January 1, 2008, the enterprise income tax of both domestic and foreign-invested enterprises is unified at 25%. According to the Enterprise Income Tax of the PRC, enterprises are classified as “resident enterprises” and “non-resident enterprises”. Pursuant to the Enterprise Income Tax Law of the PRC and EITIR, PRC resident enterprises typically pay an enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in the PRC should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10% and enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located in the PRC are considered as resident enterprises, and will generally be subject to enterprise income tax at the rate of 25% of their global income. The EITIR defines “de facto management bodies” as “establishments that carry out substantial and overall management and control over production and operations, personnel, accounting, and properties” of the enterprise. If an enterprise is considered as a PRC tax resident enterprise under the above definition, then its global income will be subject to enterprise income tax at the rate of 25%.

On April 20, 2012, the MOF and SAT issued Notice of the MOF and the SAT on Enterprise Income Tax Policies for Further Encouraging the Development of Software and IC Industries (《財政部、國家稅務總局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》). Pursuant to the notice, for eligible software enterprises within the PRC, upon identification, the enterprise income tax shall be exempted for the first and second year and shall be levied thereon at half of the statutory rate of 25% for the third through fifth year thereafter until the expiration of the preferential period which shall be calculated from the profit making year prior to December 31, 2017. For key software enterprises under the national plan of the PRC (國家規劃佈局內重點軟件企業) that have not enjoyed the tax exemption preference of the current year, the enterprise income tax rate shall be levied at the reduced rate of 10%. Further, according to the Notice of the Ministry of Finance, the State Administration of Taxation, the National Development and Reform Commission and the Ministry of Industry and Information Technology on Issues concerning Preferential Enterprise Income Tax Policies for the Software and Integrated Circuit Industries(《財政部、國家稅務總局、發展改革委、工業和信息化部關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) which was promulgated on May 4, 2016, the identification for the software enterprises to enjoy the tax privileges has been canceled.

### Dividends Withholding Tax

According to the Enterprise Income Tax Law of the PRC, dividends paid by foreign-invested companies to their foreign investors that are non-resident enterprises as defined under the law are subject

## REGULATORY OVERVIEW

to withholding tax at a rate of 10%, unless otherwise provided in the relevant tax agreements entered into with the central government of the PRC. The PRC and Hong Kong governments entered into Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the “Arrangement”) on August 21, 2006. According to the Arrangement, the withholding tax rate on dividends paid by a PRC company to a Hong Kong resident entity is 5% if such Hong Kong resident entity directly holds at least 25% of the equity interest in the PRC company, and 10% if the Hong Kong resident entity holds less than 25% of the equity interest in the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which became effective on February 20, 2009, all of the following requirements must be satisfied in order to enjoy the preferential tax rates provided under the tax agreement: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident should reach the percentages specified in the tax agreement; and (iii) the equity interests of the PRC resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends should reach a percentage specified in the tax agreement.

Pursuant to the Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》), which came into force on November 1, 2015 and amended on June 15, 2018 (the latest version became effective on June 15, 2018), any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

### **Enterprise Income Tax on Indirect Transfer of Non-Resident Enterprises**

On December 10, 2009, the SAT issued the Notice on Strengthening the Administration of Enterprise Income Tax Concerning Proceeds from Equity Transfers by Non-Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (“Circular 698”). By promulgating and implementing Circular 698, the PRC tax authorities have enhanced their scrutiny over the indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. The SAT further issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《國家稅務總局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”) on February 3, 2015, to supersede existing provisions in relation to the indirect transfer as set forth in Circular 698. Circular 7 introduces a new tax regime that is significantly different from that under Circular 698. Public Notice extends its tax jurisdiction to capture not only indirect transfer as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment and place, in China of a foreign company through the offshore transfer of a foreign intermediate holding company. Circular 7 also provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings. Where a non-resident enterprise indirectly transfers equity interests or other assets of a PRC resident enterprise by implementing arrangements that are not for reasonable commercial purposes to avoid its obligation to pay enterprise income tax, such an indirect transfer shall, in accordance with the Enterprise Income



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Tax Law of the PRC, be recognized by the competent PRC tax authorities as a direct transfer of equity interests or other assets by the PRC resident enterprise.

On October 17, 2017, the SAT promulgated the Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) (“SAT Circular 37”), which came into force and replaced Circular 698 and certain other regulations on December 1, 2017. SAT Circular 37 does, among other things, simplify procedures of withholding and payment of income tax levied on non-resident enterprises.

### LAWS AND REGULATIONS RELATING TO LABOR

#### Labor Contract Law

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) promulgated by the SCNPC on June 29, 2007, becoming effective on January 1, 2008 and amended on December 28, 2012 (the latest revision became effective on July 1, 2013) and the Implementing Regulations of the Labor Contract Law of the PRC promulgated by the State Council on September 18, 2008 and becoming effective on September 18, 2008, are primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law of the PRC, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work overtime and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers timely. According to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994 and became effective on January 1, 1995 and was amended on August 27, 2009 (the latest revision became effective on August 27, 2009), every employer must ensure work place safety and sanitation in accordance with the national regulations and provide relevant training to its employees.

#### Labor Dispatch

Pursuant to the Labor Law of the PRC and Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》), which was promulgated on January 24, 2014 and became effective on March 1, 2014, labor dispatch employment is a supplemental form which can only be adopted for temporary, auxiliary or alternative job positions. Temporary positions are positions subsisting for no more than six months; auxiliary positions are positions of non-major business serving for major businesses; and alternative positions are positions that can be held by dispatched laborers for a certain period of time during which the former laborers are temporarily out of their positions for reasons. An employer is required to strictly control the number of dispatched laborers not to exceed 10% of the total number of its employees.

Where a labor dispatch happens, the employer and the labor dispatch entity shall enter into a labor dispatch agreement to specify the dispatch positions and the number of personnel, the term of dispatch, the labor remuneration, the amount and payment method of social insurance and the liability for breach of the agreement under such agreement. The dispatched workers are entitled to receive as equal pay as employee who is hired by the employer and does the similar job. Pursuant to the Implementing Measures for Administrative Licensing for Labor Dispatch (《勞務派遣行政許可實施

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辦法》), which was promulgated on June 20, 2013, an administrative license must be obtained for the operation of a labor dispatch business from the competent authorities.

### LAWS AND REGULATIONS RELATING TO SOCIAL INSURANCE AND HOUSING FUNDS

#### Social Insurance

As required under the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》) promulgated by the State Council of the PRC and came into effect on January 22, 1999, the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended in December 20, 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions of the State Council on the Establishment of a Unified Program for Old-Aged Pension Insurance (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions of the State Council on the Establishment of the Medical Insurance Program for Urban Workers (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

Pursuant to the Interim Administrative Measures for Administration of Social Insurance Registration (《社會保險登記管理暫行辦法》) promulgated by the Ministry of Labor and Social Security of the PRC (Repealed) on March 19, 1999 and came into effect on the same day, the enterprises obliged to provide their employees in the PRC with welfare schemes in accordance with the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》) shall make social insurance registration and obtain the registration certificate.

#### Housing Funds

According to the Regulations on Management of Housing Funds (《住房公積金管理條例》), which was promulgated by the State Council of the PRC and became effective on April 3, 1999 and was amended on March 24, 2002, enterprises in the PRC must register with the competent managing center for housing funds and upon the examination by such center, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

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## HISTORY, DEVELOPMENT AND REORGANIZATION

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### OVERVIEW

Our Company was incorporated in the BVI on July 15, 2003 as an international business company pursuant to the International Business Companies Act (Cap. 291). AsiaInfo Holdings, a former indirect shareholder of our Company immediately before the Reorganization, was listed on NASDAQ from March 3, 2000 until January 15, 2014 when it was delisted pursuant to the Privatization. As a result of the Reorganization, our Company has become the holding company of our Group.

### HISTORY AND BUSINESS MILESTONES

The history of our Group dates back to 1993 when Dr. Tian and Mr. Ding, together with certain other individuals using their own financial resources, established AsiaInfo Holdings in Dallas, Texas, United States, which operated its business mainly as an internet content provider. In 1995, AsiaInfo China was incorporated in the PRC and AsiaInfo Holdings’ major business commenced operations in the PRC. Since then, the Group has gradually built up its BSS/OSS solutions capabilities and has become the leading provider of telecom software products and related services in the PRC. See “Corporate Development of Our Group—Early History of Our Group” below for more details of the early history and development of our Group.

Set out below are the key milestones in our Group’s development:

- 1993 Dr. Tian and Mr. Ding, together with certain other individuals, founded AsiaInfo Holdings and operated its business mainly as an internet content provider.
- 1995 AsiaInfo China was incorporated under the laws of the PRC and AsiaInfo Holdings’ major business commenced operations in the PRC. Since then, AsiaInfo Holdings had designed and undertaken numerous landmark projects, including China’s first commercial internet national backbone network—ChinaNet, China’s first national broadband IP network—CNCNet, China’s first mobile IP backbone network and the world’s then largest VOIP network, playing an instrumental role in the establishment and historic development of China’s national information infrastructure.
- 1997 Our Group began to provide BSS/OSS services to China Mobile, China Telecom and China Unicom.
- 2000 AsiaInfo Holdings was listed on NASDAQ on March 3, 2000, and was among the first batch of Chinese high-technology companies to be listed on NASDAQ.
- 2003 Our Company was incorporated in the BVI on July 15, 2003.
- 2010 AsiaInfo Holdings merged with Linkage and was renamed AsiaInfo-Linkage, Inc. and AsiaInfo Nanjing became part of our Group. As a result, our Group became the largest provider of telecom software products and related services in China.
- 2014 AsiaInfo Holdings was delisted from NASDAQ on January 15, 2014 pursuant to the Privatization and was renamed AsiaInfo Holdings, LLC. CITIC Capital Entities, our Controlling Shareholders before [REDACTED], became the single largest shareholder of AsiaInfo Holdings after completion of the Privatization.



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## HISTORY, DEVELOPMENT AND REORGANIZATION

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- 2015 With years of experience accumulated in technology and customer relations, we began to launch data-driven operation services, IoT platforms and IoT industry application solutions to telecom operators and their government and enterprise customers, representing a key milestone of the development of our new business sector.
- 2017 We developed the integrated CRM system for China Post, representing another key milestone of our expansion in the large enterprise market.

### CORPORATE DEVELOPMENT OF OUR GROUP

#### Early History of Our Group

Dr. Tian, Mr. Ding, together with certain other individuals, established AsiaInfo Holdings on June 17, 1993 under the laws of Dallas, Texas, USA, and operated its business as an internet content provider. AsiaInfo Holdings was subsequently re-domiciled to Delaware, USA in June 1998. Please see the section headed “Directors and Senior Management—Directors—Executive Directors” in this [REDACTED] for further information on the background and experience of Dr. Tian and Mr. Ding.

Following the establishment of AsiaInfo China in 1995, the major businesses of AsiaInfo Holdings commenced operations in the PRC. See “Corporate Development of Our Group—Establishment and Development of Our Group—AsiaInfo China” below for more details.

#### Establishment and Development of Our Group

Set forth below are the establishment and development of our Company and our major subsidiaries:

##### *Our Company*

Our Company was incorporated under the name of Linkage Technologies Investment Limited in the BVI as an international business company pursuant to the International Business Companies Act (Cap. 291) on July 15, 2003 and was automatically re-registered under the BVI Business Companies Act on January 1, 2007. Upon its incorporation, our Company was authorized to issue 500,000 Shares with a par value of US\$0.10 each with one vote for each Share.

On July 1, 2010, Linkage transferred 9,288 Shares to AsiaInfo Technologies HK, at a total consideration of US\$60,000,000 in cash and 26,832,731 shares of common stocks of AsiaInfo Holdings. The consideration was based on arm’s length business negotiation between the parties, and settled on July 1, 2010. After completion of this transfer, AsiaInfo Technologies HK became the sole Shareholder of our Company.

On October 28, 2010, our Company was renamed as AsiaInfo-Linkage Technologies Investment Limited, which was subsequently renamed AsiaInfo Technologies Investment Limited on April 30, 2014, AsiaInfo Technologies Limited (亞信科技有限公司) on June 28, 2018 and was further renamed AsiaInfo Technologies Limited (亞信科技控股有限公司), our current name, on July 10, 2018.

In 2018, in preparation for the [REDACTED], our Company has undertaken certain reorganization arrangements, as a result of which our Company became the holding company of our Group’s businesses. For details of the Reorganization, please refer to the subsection headed “Reorganization” below.

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## HISTORY, DEVELOPMENT AND REORGANIZATION

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### *AsiaInfo China*

On May 2, 1995, AsiaInfo China, which was initially named AsiaInfo Computer Network (Beijing) Co., Ltd. (亞信電腦網絡(北京)有限公司), was established under the laws of the PRC by AsiaInfo Services, then a wholly-owned subsidiary of AsiaInfo Holdings, as a wholly foreign-owned enterprise. Upon the establishment of AsiaInfo China, AsiaInfo Holdings moved its base of operations from Dallas, Texas, USA to Beijing, PRC, in order to capitalize on emerging opportunities in the rapidly developing internet market in the PRC.

On September 21, 1999, AsiaInfo China was renamed AsiaInfo Technology (China) Inc. (亞信科技(中國)有限公司). On July 5, 2010, upon completion of the Linkage Merger, AsiaInfo China was further renamed AsiaInfo-Linkage Technologies (China), Inc. (亞信聯創科技(中國)有限公司). On May 12, 2014, AsiaInfo China was renamed again to its current name AsiaInfo Technology (China) Inc. (亞信科技(中國)有限公司).

On November 10, 2011, AsiaInfo Holdings transferred its entire equity interest in AsiaInfo China to AsiaInfo Technologies HK, the consideration being the issuance of 1 new share by AsiaInfo Technologies HK to AsiaInfo Holdings. Please see “Acquisitions, Investments and Disposals—Transfer of AsiaInfo China” below for more details.

The principal business of AsiaInfo China is the development and production of computer network systems software, computer network integration systems, computer network equipment parts, computer and software information consulting, system integration services, and technical consulting.

### *AsiaInfo Nanjing*

On February 16, 2004, AsiaInfo Nanjing, which was initially named Linkage Technology (Nanjing) Co., Ltd. (聯創科技(南京)有限公司), was established in the PRC by our Company as a wholly foreign-owned enterprise.

On July 1, 2010, upon completion of the Linkage Merger, our Company became a direct wholly-owned subsidiary of AsiaInfo Technologies HK and, consequently, AsiaInfo Nanjing became an indirect wholly-owned subsidiary of AsiaInfo Technologies HK.

On October 9, 2010, AsiaInfo Nanjing was renamed Linkage AsiaInfo Technologies (Nanjing), Inc. (聯創亞信科技(南京)有限公司). On May 4, 2014, upon completion of the Privatization, AsiaInfo Nanjing was further renamed to its current name of AsiaInfo Technologies (Nanjing), Inc. (亞信科技(南京)有限公司).

The principal business of AsiaInfo Nanjing is the development and production of computer network systems software, computer network integration systems, computer network equipment parts, computer and software information consulting, system integration services, and technical consulting.

## ACQUISITIONS, INVESTMENTS AND DISPOSALS

### **Linkage Merger**

On December 4, 2009, AsiaInfo Holdings entered into a business combination agreement with Linkage, an independent third party which was then a leading provider of software solutions and IT services for the telecom industry in the PRC (the “**Linkage Merger Agreement**”). Pursuant to the

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## HISTORY, DEVELOPMENT AND REORGANIZATION

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Linkage Merger Agreement, AsiaInfo Holdings agreed to purchase, directly or through its subsidiaries, from Linkage its 100% shareholding in our Company, at the time named Linkage Technologies Investment Limited (the “**Linkage Merger**”). The consideration for the Linkage Merger was US\$60 million in cash and 26,832,731 shares of the common stock of AsiaInfo Holdings (the “**Linkage Merger Consideration**”). The Linkage Merger Consideration was determined based on commercial negotiation. The Linkage Merger was duly completed on July 1, 2010 when (i) AsiaInfo Holdings issued to AsiaInfo Technologies HK 26,832,731 shares in AsiaInfo Holdings, being part of the Linkage Merger Consideration, in exchange for which AsiaInfo Technologies HK issued 1 new share to AsiaInfo Holdings; and (ii) AsiaInfo Technologies HK paid the Linkage Merger Consideration in full to Linkage and acquired the 100% shareholding in our Company. Upon completion of the Linkage Merger, our Company and its subsidiaries, including HK AsiaInfo Technologies and AsiaInfo Nanjing, became wholly-owned subsidiaries of AsiaInfo Technologies HK. As a result of the Linkage Merger, our Group became the largest provider of telecom software products and related service in China.

### **Acquisition of Equity Interests in AsiaInfo Big Data Limited**

On December 4, 2017, our Company acquired 2 ordinary shares of AsiaInfo Big Data, representing 100% of the issued shares of AsiaInfo Big Data, from AsiaInfo Cayman for nil consideration. The nil consideration was based on arm’s length commercial negotiation between the parties and the reason for nil consideration being AsiaInfo Big Data was loss-making at that time. Accordingly, the acquisition has been legally completed on December 4, 2017 in compliance with the applicable laws and regulations in all material respects and the requisite approvals for the disposal have been obtained from the relevant competent authorities. As a result of such acquisition, we strengthened our capability to provide big data products and services to our telecom operator customers.

### **Disposal of Equity Interests in AsiaInfo Chengdu**

On October 1, 2015, AsiaInfo China, an indirect wholly owned subsidiary of our Company, entered into a share transfer agreement with Nanjing AsiaInfo Information Security Technology Co., Ltd. (南京亞信信息安全技術有限公司) (“**Nanjing AsiaInfo Information Security**”), pursuant to which AsiaInfo China agreed to sell and Nanjing AsiaInfo Information Security agreed to purchase, 100% equity interests in AsiaInfo Chengdu. The consideration for the transfer was RMB80 million, which was determined based an asset valuation conducted by a professional valuer. The consideration was settled in full on October 30, 2015. Accordingly, the disposal has been legally completed and settled in compliance with the applicable laws and regulations in all material aspects and the requisite approvals for disposals have been obtained from the relevant competent authorities.

### **Disposals of Equity Interests in AsiaInfo Singapore, AsiaInfo Thailand and AsiaInfo UK**

On November 27, 2015, AsiaInfo Technologies HK transferred to International HK, an indirect wholly-owned subsidiary of AsiaInfo Cayman, 40,190,892 ordinary shares of AsiaInfo Singapore, representing 100% of the issued share capital of AsiaInfo Singapore, and 1 ordinary share of AsiaInfo Thailand, representing 0.0025% of the issued share capital of AsiaInfo Thailand. The consideration for the sale of the shares in AsiaInfo Singapore and AsiaInfo Thailand were US\$39,000,000 and THB100 respectively, which were based on arm’s length business negotiation between the parties. The consideration for each of the transfers was settled in full by International HK on November 27, 2015. Accordingly, the disposals have been legally completed and settled in compliance with the applicable

## HISTORY, DEVELOPMENT AND REORGANIZATION

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laws and regulations in all material aspects and the requisite approvals for disposals have been obtained from the relevant competent authorities.

As AsiaInfo Malaysia was wholly-owned by AsiaInfo Singapore, and AsiaInfo Singapore and AsiaInfo Malaysia together held 99.9975% of AsiaInfo Thailand, immediately after completion of the disposals, each of AsiaInfo Singapore, AsiaInfo Malaysia and AsiaInfo Thailand became a wholly-owned subsidiary of International HK.

On May 30, 2016, AsiaInfo Technologies HK transferred to International HK 28,389,269 ordinary shares of AsiaInfo UK, representing 100% of the issued share capital of AsiaInfo UK. The consideration for the sale was equivalent to RMB13,140,000, which was based on arm’s length commercial negotiation between the parties. The consideration was settled in full by International HK on May 30, 2016. Accordingly, the disposal has been legally completed and settled in compliance with the applicable laws and regulations in all material aspects and the requisite approvals for the disposal have been obtained from the relevant competent authorities.

As each of AsiaInfo Denmark and AsiaInfo Hungary was wholly-owned by AsiaInfo UK, immediately after completion of the disposal, each of AsiaInfo UK, AsiaInfo Denmark and AsiaInfo Hungary became a wholly-owned subsidiary of International HK, and therefore became part of the International Business.

### LISTING AND DELISTING ON NASDAQ

#### Listing on NASDAQ

AsiaInfo Holdings, the then holding company of our operating subsidiaries, was listed on NASDAQ on March 3, 2000 pursuant to a public offering in the United States at the offer price of US\$24 per share. The net proceeds received by AsiaInfo Holdings from the public offering were approximately US\$127 million.

#### Privatization By Way of Merger and Delisting

On January 20, 2012, the board of directors of AsiaInfo Holdings received a non-binding proposal letter from Power Joy, pursuant to which Power Joy proposed to acquire all of the outstanding shares of common stock of AsiaInfo Holdings in cash at US\$12.00 per share, representing a premium over the then-current stock price of AsiaInfo Holdings.

On May 12, 2013, AsiaInfo Holdings entered into the Merger Agreement with Parent Cayman and Merger Sub, pursuant to which Merger Sub merged with and into AsiaInfo Holdings, with AsiaInfo Holdings continuing as the surviving entity and a wholly-owned subsidiary of Parent Cayman.

Prior to the Merger, Parent Cayman and Merger Sub were wholly-owned by Power Joy. Immediately prior to the effective time of the Merger, each of Power Joy and the Rollover Shareholders would contribute AsiaInfo Holdings’ common stock owned by them to Parent Cayman in exchange for newly issued shares of Holdco Cayman, while each of the Privatization Sponsors would contribute their equity commitments to Parent Cayman in exchange for newly issued shares of Holdco Cayman. At the effective time of the Merger, Parent Cayman and Merger Sub were beneficially owned by Power Joy, the Rollover Stockholders and the Privatization Sponsors.

## **HISTORY, DEVELOPMENT AND REORGANIZATION**

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The Merger Consideration represented a premium of approximately 21.0% over AsiaInfo Holdings’ closing price of US\$9.92 per share on January 19, 2012 (being the last trading day prior to the date on which the Merger proposal was announced), and a premium of 50.8% to the volume-weighted average closing price of AsiaInfo Holdings’ shares for the previous 30-trading day period ended January 19, 2012. The total amount of funds necessary to complete the Privatization and related transactions, including payment of the Merger Consideration to the relevant shareholders pursuant to the Merger Agreement, was approximately US\$887 million.

The Privatization was approved by shareholders of AsiaInfo Holdings on December 19, 2013. Upon settlement of the Merger Consideration and completion of the Merger, AsiaInfo Holdings, as the surviving entity, merged with the Merger Sub and became a wholly-owned subsidiary of Parent Cayman on January 15, 2014. As a result of the Privatization, AsiaInfo Holdings ceased to be a publicly traded company and was delisted from NASDAQ. On April 28, 2015, AsiaInfo Holdings was converted into a limited liability company and was renamed AsiaInfo Holdings, LLC.

### **Funding of the Privatization and Merger**

The total amount of the Merger Consideration was financed through a combination of (i) the contribution of from the Rollover Stockholders and Power Joy to Parent Cayman, (ii) equity financing from each Privatization Sponsor, (iii) debt financing from a syndicate of Nomura International (Hong Kong) Limited, Bank of Taiwan, Cathay United Bank, Co., Ltd., ICBC International Capital Limited and Maybank Investment Bank Berhad and (iv) the contribution of certain shares of AsiaInfo Holdings’ common stock underlying restricted stock units pursuant to the Merger Agreement.

### **Reason for the Privatization**

The delisting of AsiaInfo Holdings from NASDAQ allowed AsiaInfo Holdings to have greater flexibility to focus on improving its financial performance without the constraints caused by the public equity market’s valuation which emphasizes on short-term period-to-period performance.

### **Compliance Record During our Listing on NASDAQ**

Our Directors confirm that there were no material non-compliance incidents during the period in which AsiaInfo Holdings was listed on NASDAQ in any material respects and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to the investors’ attention in relation to the compliance record of AsiaInfo Holdings during its listing on NASDAQ.

### **APPLICATION FOR [REDACTED] ON THE HONG KONG STOCK EXCHANGE**

Our Directors consider Hong Kong to be a suitable place for [REDACTED] as they believe that, with our businesses and operations being primarily located, managed and conducted in the PRC, a [REDACTED] in Hong Kong will not only contribute to opportunities for future fund-raising but also provide better synergy for us in terms of branding and raising our corporate profile.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### INFORMATION ON OUR MATERIAL OPERATING SUBSIDIARIES

The following table sets forth information in relation to the identities, places and dates of incorporation or establishment, registered capital and principal businesses of our material operating subsidiaries as of the Latest Practicable Date:

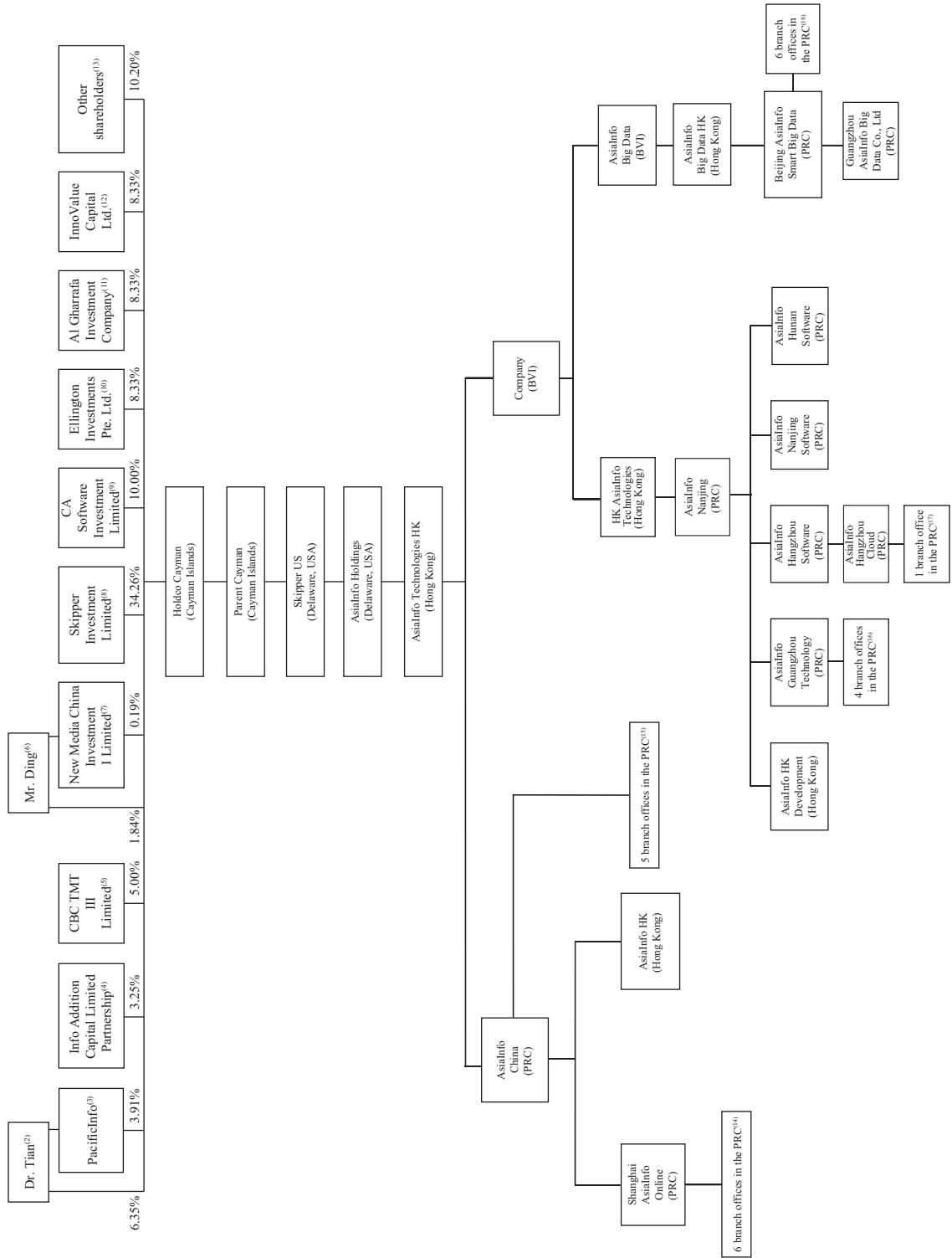
| <u>Name</u>                     | <u>Date of Incorporation</u> | <u>Place of Incorporation</u> | <u>Registered Capital</u> | <u>Principal Businesses</u>  |
|---------------------------------|------------------------------|-------------------------------|---------------------------|--|
| AsiaInfo China                  | May 2, 1995                  | PRC                           | US\$26,040,570            | Development and production of computer network systems software, computer network integration systems, computer network equipment parts, computer and software information consulting, system integration services, and technical consulting |
| AsiaInfo Nanjing                | February 16, 2004            | PRC                           | US\$11,000,000            | Development and production of computer network systems software, computer network integration systems, computer network equipment parts, computer and software information consulting, system integration services, and technical consulting |
| AsiaInfo Hangzhou Cloud         | February 25, 2007            | PRC                           | RMB10,000,000             | Development of technology and technical services, transfer of results and computer software products   |
| Beijing AsiaInfo Smart Big Data | August 21, 2014              | PRC                           | RMB285,200,000            | Computer software and network technology development, technical consulting, computer system integration and data processing  |



**HISTORY, DEVELOPMENT AND REORGANIZATION**

**REORGANIZATION**

Set out below is the shareholding structure of our Group immediately prior to the commencement of the Reorganization (unless otherwise specified, each subsidiary is 100% owned by its holding company<sup>(1)</sup>):





## HISTORY, DEVELOPMENT AND REORGANIZATION

*Notes:*

1. The percentage of the shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.
2. The 6.35% shareholding beneficially and directly held by Dr. Tian reflects the 4,938,454 class A voting shares of a par value of US\$0.0005 each in the capital of Holdco Cayman (the “**Class A Shares**”) and 19,743 class C non-voting shares of a par value of US\$0.0005 each in the capital of Holdco Cayman (the “**Class C Shares**”) held by him in Holdco Cayman. The shares in Holdco Cayman beneficially and directly held by Dr. Tian represent 6.81% of the voting rights in Holdco Cayman. In addition, since (i) Dr. Tian is the sole shareholder of Info Addition Limited, which in turn is the general partner of Info Addition Capital Limited Partnership (“**Info Addition**”); (ii) Dr. Tian indirectly has full control over CBC Partners II L.P. which is the general partner of China Broadband Capital Partners II, L.P., which in turn is the sole shareholder of CBC TMT III Limited (“**CBC**”); and (iii) PacificInfo is wholly owned by Dr. Tian, Dr. Tian is deemed to control the shares in Holdco Cayman held by each of Info Addition, CBC and PacificInfo.
3. The 3.91% shareholding held by PacificInfo Limited in Holdco Cayman represents 3,051,250 Class A Shares held by it, which represents 4.21% of the voting rights in Holdco Cayman.
4. The 3.25% shareholding held by Info Addition Capital Limited Partnership reflects the 2,537,796 Class A Shares held by it in Holdco Cayman. The shares in Holdco Cayman held by Info Addition represent 3.50% of the voting rights in Holdco Cayman. Dr. Tian is the sole shareholder of Info Addition Limited, which in turn is the general partner of Info Addition.
5. The 5.00% shareholding held by CBC reflects the 3,901,170 Class A Shares held by it in Holdco Cayman. The shares in Holdco Cayman held by CBC represent 5.38% of the voting rights in Holdco Cayman. Dr. Tian indirectly has full control over CBC Partners II L.P. which is the general partner of China Broadband Capital Partners II, L.P., which in turn is the sole shareholder of CBC.
6. The 1.84% shareholding beneficially and directly held by Mr. Ding reflects the 1,419,845 Class B voting shares of a par value of US\$0.005 each in the capital of Holdco Cayman (the “**Class B Shares**”) held by it in Holdco Cayman, and 19,743 Class C Shares held by him in Holdco Cayman. The shares in Holdco Cayman beneficially and directly held by Mr. Ding represent 1.96% of the voting rights in Holdco Cayman.
7. The 0.19% shareholding held by New Media China Investment I Limited in Holdco Cayman represents 149,805 Class B Shares held by it, which represents 0.21% of the voting rights in Holdco Cayman. New Media China Investment I Limited is wholly owned by Mr. Ding.
8. The 34.26% shareholding held by Skipper Investment Limited reflects the 26,740,619 Class B Shares held by it in Holdco Cayman. The shares in Holdco Cayman held by Skipper Investment Limited represent 36.89% of the voting rights in Holdco Cayman. Power Joy is the holding company of Skipper Investment Limited, which is a direct wholly-owned subsidiary of CITIC Capital China Partners II, L.P.
9. The 10.00% shareholding held by CA Software Investment Limited reflects the 7,802,341 Class B Shares. The shares in Holdco Cayman held by CA Software Investment Limited represent 10.76% of the voting rights in Holdco Cayman. CA Software Investment Limited is wholly-owned by CPEChina Fund, L.P., of which CITIC PE Associates L.P. is the general partner.
10. The 8.33% shareholding held by Ellington Investments Pte. Ltd. reflects the 6,501,951 Class B Shares held by it in Holdco Cayman. The shares in Holdco Cayman held by Ellington Investments Pte. Ltd. represent 8.97% of the voting rights in Holdco Cayman. Ellington Investments Pte. Ltd. is wholly-owned by Bartley Investments Pte. Ltd., which in turn is wholly-owned by Tembusu Capital Pte. Ltd., which in turn is wholly-owned by Temasek Holdings (Private) Limited.
11. The 8.33% shareholding held by Al Gharrafa Investment Company reflects the 6,501,951 Class B Shares held by it in Holdco Cayman. The shares in Holdco Cayman held by Al Gharrafa Investment Company represent 8.97% of the voting rights in Holdco Cayman. Al Gharrafa Investment Company is wholly-owned by Qatar Holding LLC.
12. The 8.33% shareholding held by InnoValue Capital Ltd. reflects the 6,501,951 Class A Shares held by it in Holdco Cayman. The shares in Holdco Cayman held by InnoValue Capital Ltd. represent 8.97% of the voting rights in Holdco Cayman. InnoValue Capital Ltd. is wholly-owned by Ms. LIU Tzu-Lien.
13. Other shareholders of Holdco Cayman include certain individuals, corporations and partnerships, who are either our employees or independent third parties. None of them hold more than 1% shareholding interest in Holdco Cayman. The shares in Holdco Cayman held by other shareholders represent 3.36% of the voting rights in Holdco Cayman.
14. The 6 branch offices of Shanghai AsiaInfo Online are: Shanghai AsiaInfo Online Technology Limited Beijing Branch; Shanghai AsiaInfo Online Technology Limited Nanjing Branch; Shanghai AsiaInfo Online Technology Limited Guangzhou Branch; Shanghai AsiaInfo Online Technology Limited Changsha Branch; Shanghai AsiaInfo Online Technology Limited Hangzhou Branch and Shanghai AsiaInfo Online Technology Limited Chongqing Branch.
15. The 5 branch offices of AsiaInfo China are: AsiaInfo Technologies (China), Inc. Fuzhou Branch; AsiaInfo Technologies (China), Inc. Shenyang Branch; AsiaInfo Technologies (China), Inc. Guangzhou Branch; AsiaInfo Technologies (China), Inc. Shanghai Branch and AsiaInfo Technologies (China), Inc. Chengdu Branch.
16. The 4 branch offices of AsiaInfo Guangzhou Technology are: Guangzhou AsiaInfo Technologies, Inc. Fuzhou Branch; Guangzhou AsiaInfo Technologies, Inc. Chengdu Branch; Guangzhou AsiaInfo Technologies, Inc. Shanghai Branch and Guangzhou AsiaInfo Technologies, Inc. Hangzhou Branch.
17. The 1 branch office of AsiaInfo Hangzhou Cloud is Hangzhou AsiaInfo Cloud Information Technologies Limited Beijing Branch.
18. The 6 branch offices of Beijing AsiaInfo Smart Big Data are: Beijing AsiaInfo Smart Big Data Co., Ltd Nanjing Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Chengdu Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Fuzhou Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Hangzhou Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Shanghai Branch and Beijing AsiaInfo Smart Big Data Co., Ltd Guangzhou Branch.

## HISTORY, DEVELOPMENT AND REORGANIZATION

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In preparation for the [REDACTED], our Group has undertaken the Reorganization which involves the following steps:

### **Step 1: Transfer of HK AsiaInfo Technologies and AsiaInfo Big Data to AsiaInfo Technologies HK and Transfer of the Company to AsiaInfo Holdings**

On April 29, 2018, the Company, AsiaInfo Holdings and AsiaInfo Technologies HK entered into a deed of reorganization (the “**Reorganization Deed**”) pursuant to which (i) the Company agreed to transfer all of the issued shares of HK AsiaInfo Technologies and AsiaInfo Big Data to AsiaInfo Technologies HK; and (ii) AsiaInfo Technologies HK agreed to transfer all issued shares in the Company to AsiaInfo Holdings.

The transfers were completed on April 29, 2018. Immediately after completion of the transactions contemplated under the Reorganization Deed, (i) HK AsiaInfo Technologies and AsiaInfo Big Data became indirect wholly-owned subsidiaries of AsiaInfo Holdings through AsiaInfo Technologies HK, and (ii) the Company became a direct wholly-owned subsidiary of AsiaInfo Holdings.

### **Step 2: Transfer of AsiaInfo Technologies HK to the Company and Issuance of Share to AsiaInfo Holdings**

On April 30, 2018, the Company and AsiaInfo Holdings entered into a share transfer agreement (the “**Share Transfer Agreement**”) pursuant to which the Company agreed to allot and issue one new Share to AsiaInfo Holdings in consideration for AsiaInfo Holdings transferring all of the issued shares of AsiaInfo Technologies HK to the Company.

The transfer was completed on April 30, 2018. Immediately after the completion of the transactions contemplated under the Share Transfer Agreement, AsiaInfo Technologies HK became a direct wholly-owned subsidiary of the Company.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### Step 3: Allotment and Issuance of New Shares by the Company to All of the Then Shareholders of Holdco Cayman

On June 26, 2018, the Company allotted and issued an aggregate of 78,043,522 new Shares to all of the then existing shareholders of Holdco Cayman for an aggregate nominal consideration of HK\$78.04 with reference to their respective shareholding in Holdco Cayman immediately before the commencement of the Reorganization (the “**Pushdown Allotment**”). Details of the Pushdown Allotment are set forth below:

| Name of Allottee  | Number of Shares in the Company allotted and issued | % of shareholding in the Company after the Pushdown Allotment | Consideration paid (HK\$) |
|---|---|---|---------------------------|
| Skipper Investment Limited  | 26,740,619  | 34.2637%  | 26.74                     |
| CA Software Investment Limited  | 7,802,341   | 9.9974%   | 7.80                      |
| Ellington Investments Pte. Ltd.   | 6,501,951   | 8.3312%   | 6.50                      |
| Al Gharrafa Investment Company  | 6,501,951   | 8.3312%   | 6.50                      |
| InnoValue Capital Ltd.  | 6,501,951   | 8.3312%   | 6.50                      |
| Dr. Tian <sup>(1)</sup>   | 4,958,197   | 6.3531%   | 4.96                      |
| CBC TMT III Limited   | 3,901,170   | 4.9987%   | 3.90                      |
| PacificInfo Limited   | 3,051,250   | 3.9097%   | 3.05                      |
| Info Addition Capital Limited Partnership   | 2,537,796   | 3.2518%   | 2.54                      |
| Mr. Ding <sup>(2)</sup>   | 1,439,588   | 1.8446%   | 1.44                      |
| World Sun Global Limited  | 650,195   | 0.8331%   | 0.65                      |
| Hongtao Investment-I Ltd  | 520,156   | 0.6665%   | 0.52                      |
| Rosehearty Investments LLC  | 520,156   | 0.6665%   | 0.52                      |
| Mr. WANG Zhongjun   | 260,078   | 0.3332%   | 0.26                      |
| New Media China Investment I Limited  | 149,805   | 0.1920%   | 0.15                      |
| Mr. WU Jun  | 147,337   | 0.1888%   | 0.15                      |
| AsiaInfo Resolute Limited I (the special purpose vehicle of Trust I) <sup>(3)</sup>   | 3,958,552 <sup>(5)</sup>                            | 5.0722%   | 3.96                      |
| AsiaInfo Resolute Limited II (the special purpose vehicle of Trust II) <sup>(4)</sup> | <u>1,900,429</u>                                    | <u>2.4351%</u>  | <u>1.90</u>               |
| <b>Total</b>  | <b>78,043,522<sup>(5)</sup></b>                     | <b>100%</b>   | <b>78.04</b>              |

Notes:

- The 4,958,197 Shares of the Company issued to Dr. Tian reflect the 4,938,454 Class A Shares and 19,743 Class C Shares he then held in Holdco Cayman.
- The 1,439,588 Shares of the Company issued to Mr. Ding reflect the 1,419,845 Class B Shares and 19,743 Class C Shares he then held in Holdco Cayman.
- A total of 3,958,552 Shares in the Company were issued to AsiaInfo Resolute Limited I, being the special purpose vehicle of the Trust I, which were held on trust for certain holders of Class C Shares who were employees, ex-employees, consultants and ex-consultants of the Group (the “**Employee Shareholders**”). Each of the Employee Shareholders has confirmed in writing that Trust I shall subscribe for and hold such Shares of the Company that each of them was otherwise entitled to subscribe for and own personally as a result of the Pushdown Allotment on trust for them.
- A total of 1,900,429 Shares in the Company were issued to AsiaInfo Resolute Limited II, being a special purpose vehicle of the Trust II, which were held on trust for the certain holders of Class C Shares who were members of the management team of the Group (the “**Management Shareholders**”). Each of the Management Shareholders has confirmed in writing that Trust II shall subscribe for and hold Shares in the Company that each of them was otherwise entitled to subscribe for and own personally as a result of the Pushdown Allotment on trust for them.
- A total of 17 holders of Class C Shares holding an aggregate of 4,503 Class C Shares were either untraceable or had declined to participate in the Reorganization and therefore have not been issued any Shares of the Company in respect of the 4,503 Class C Shares held by such holders of Class C Shares.

### Step 4: Surrender of Shares by AsiaInfo Holdings

Pursuant to a share surrender letter signed by AsiaInfo Holdings, AsiaInfo Holdings surrendered all of the Shares in the Company held by AsiaInfo Holdings immediately after the

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## HISTORY, DEVELOPMENT AND REORGANIZATION

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Pushdown Allotment on June 26, 2018. Following the aforementioned surrender of Shares, AsiaInfo Holdings ceased to be a Shareholder of the Company.

### **Step 5: Adoption of the [REDACTED] Share Option Scheme and the [REDACTED] RSA Scheme and Grant of Share Options and RSAs**

#### **[REDACTED] Share Option Scheme**

On June 26, 2018, we adopted the [REDACTED] Share Option Scheme. On July 11, 2018 and August 1, 2018, pursuant to the [REDACTED] Share Option Scheme, we have granted an aggregate of 15,055,107 share options (being 120,440,856 share options after taking into account the Share Subdivision), representing rights to subscribe for 15,055,107 Shares (being 120,440,856 Shares after taking into account of Share Subdivision) to certain grantees who are our employees, ex-employees, consultants and ex-consultants (including members of our management team).

Please refer to the section headed “Statutory and General Information – D. [REDACTED] Share Option Scheme” in Appendix IV to this [REDACTED] for details.

#### **[REDACTED] RSA Scheme**

On June 26, 2018, we adopted the [REDACTED] RSA Scheme. On July 11, 2018 and August 1, 2018, pursuant to the [REDACTED] RSA Scheme, we have granted an aggregate of 2,561,241 RSAs (being 20,489,928 RSAs after taking into account the Share Subdivision), representing rights to receive 2,561,241 Shares (being 20,489,928 Shares after taking into account of Share Subdivision) to certain grantees who are our employees, ex-employees, consultants and ex-consultants (including members of our management team).

Please refer to the section headed “Statutory and General Information – E. [REDACTED] RSA Schemes” in Appendix IV to this [REDACTED] for details.

### **EXERCISE OF SHARES OPTIONS/VESTING OF RSAs BEFORE THE [REDACTED] AND THE ISSUANCE OF NEW SHARES**

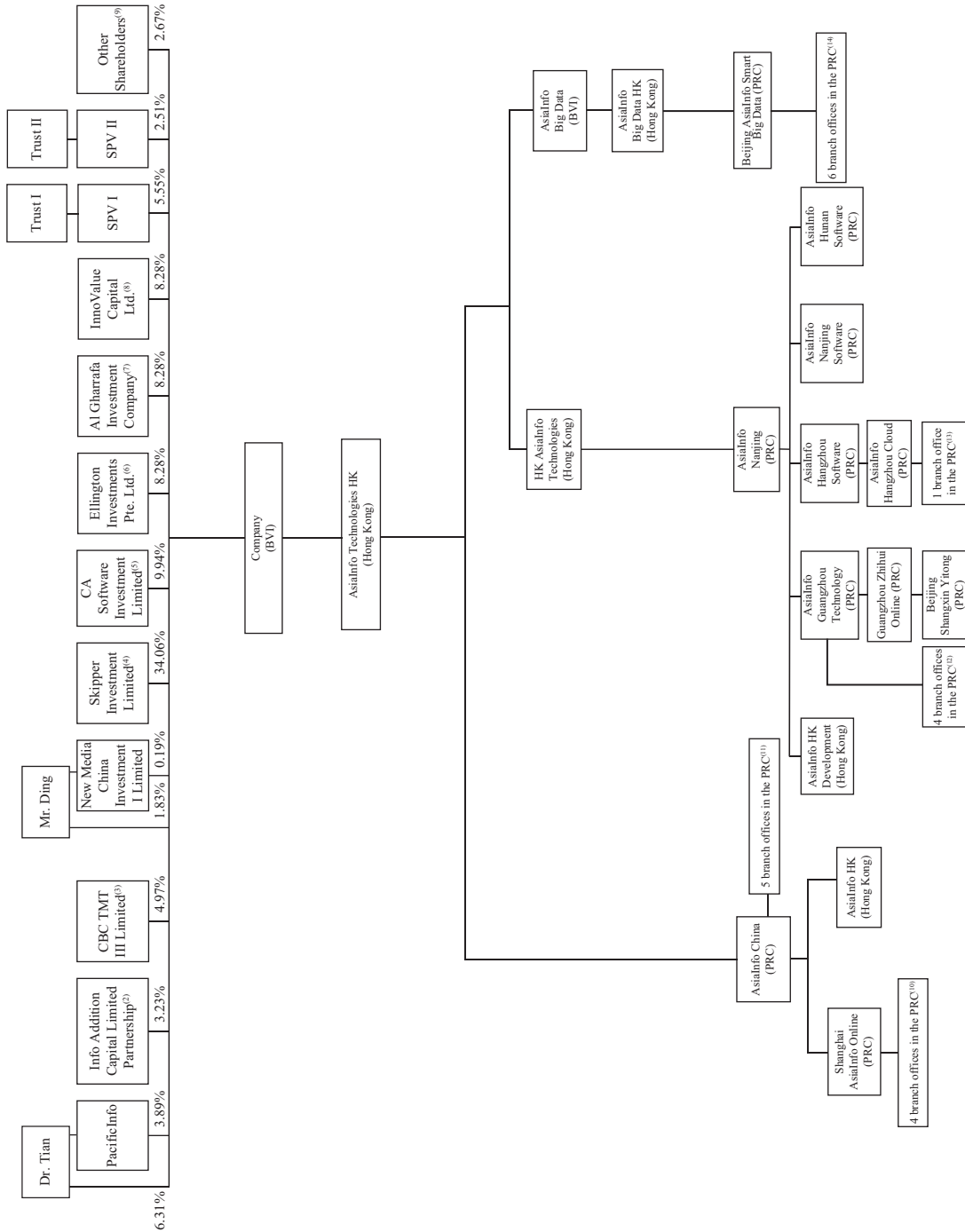
On July 11, 2018, a total of 5,875 Shares (being 47,000 Shares after taking into account of Share Subdivision) were issued to certain grantees of the share options as a result of the exercise of certain share options granted under the [REDACTED] Share Option Scheme. On the same day, a total of 466,126 Shares (being 3,729,008 Shares after taking into account of Share Subdivision) were issued to certain grantees of the RSAs as a result of the vesting of certain RSAs granted under the [REDACTED] RSA Scheme. The 472,001 Shares allotted and issued pursuant to the above were held by SPV I and SPV II (being the special purpose vehicles of Trust I and Trust II respectively) on trust for the relevant grantees.

### **SHARE SUBDIVISION**

On [●] 2018, our Shareholders resolved that each issued and unissued Shares of HK\$0.0000001 par value each of our Company be subdivided into [8] Shares of HK\$[0.000000125] par value each. The Shareholders authorized the making of the filing in respect of the same with the Registrar of Corporate Affairs in the BVI and thereby giving effect to the same upon filing.

**HISTORY, DEVELOPMENT AND REORGANIZATION**

The following chart sets forth our shareholding structure of our Group after the completion of the Reorganization and immediately prior to the [REDACTED] (unless otherwise specified, each subsidiary is 100% owned by its holding company<sup>(1)</sup>):



## **HISTORY, DEVELOPMENT AND REORGANIZATION**

*Notes:*

1. The percentage of the Shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.
2. Dr. Tian is the sole shareholder of Info Addition Limited, which in turn is the general partner of Info Addition.
3. Dr. Tian indirectly has full control over CBC Partners II L.P. which is the general partner of China Broadband Capital Partners II, L.P., which in turn is the sole shareholder of CBC TMT III Limited.
4. Power Joy is the holding company of Skipper Investment Limited, which is a direct wholly-owned subsidiary of CITIC Capital China Partners II, L.P.
5. CA Software Investment Limited is wholly-owned by CPEChina Fund, L.P., of which CITIC PE Associates L.P. is the general partner.
6. Ellington Investments Pte. Ltd. is wholly-owned by Bartley Investments Pte. Ltd., which in turn is wholly-owned by Tembusu Capital Pte. Ltd., which in turn is wholly-owned by Temasek Holdings (Private) Limited.
7. Al Gharrafa Investment Company is wholly-owned by Qatar Holding LLC.
8. InnoValue Capital Ltd. is wholly-owned by Ms. LIU Tzu-Lien.
9. Other Shareholders include certain individuals, corporations and partnerships, each of which was a Shareholder of the Company prior to [REDACTED] and hold no more than 1% shareholding interest in the Company.
10. The 4 branch offices of Shanghai AsiaInfo Online are: Shanghai AsiaInfo Online Technology Limited Beijing Branch; Shanghai AsiaInfo Online Technology Limited Nanjing Branch; Shanghai AsiaInfo Online Technology Limited Guangzhou Branch and Shanghai AsiaInfo Online Technology Limited Chongqing Branch.
11. The 5 branch offices of AsiaInfo China are: AsiaInfo Technologies (China), Inc. Fuzhou Branch; AsiaInfo Technologies (China), Inc. Shenyang Branch; AsiaInfo Technologies (China), Inc. Guangzhou Branch; AsiaInfo Technologies (China), Inc. Shanghai Branch and AsiaInfo Technologies (China), Inc. Chengdu Branch.
12. The 4 branch offices of AsiaInfo Guangzhou Technology are: Guangzhou AsiaInfo Technologies, Inc. Fuzhou Branch; Guangzhou AsiaInfo Technologies, Inc. Chengdu Branch; Guangzhou AsiaInfo Technologies, Inc. Shanghai Branch and Guangzhou AsiaInfo Technologies, Inc. Hangzhou Branch.
13. The 1 branch office of AsiaInfo Hangzhou Cloud is Hangzhou AsiaInfo Cloud Information Technologies Limited Beijing Branch.
14. The 6 branch offices of Beijing AsiaInfo Smart Big Data are: Beijing AsiaInfo Smart Big Data Co., Ltd Nanjing Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Chengdu Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Fuzhou Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Hangzhou Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Shanghai Branch and Beijing AsiaInfo Smart Big Data Co., Ltd Guangzhou Branch.

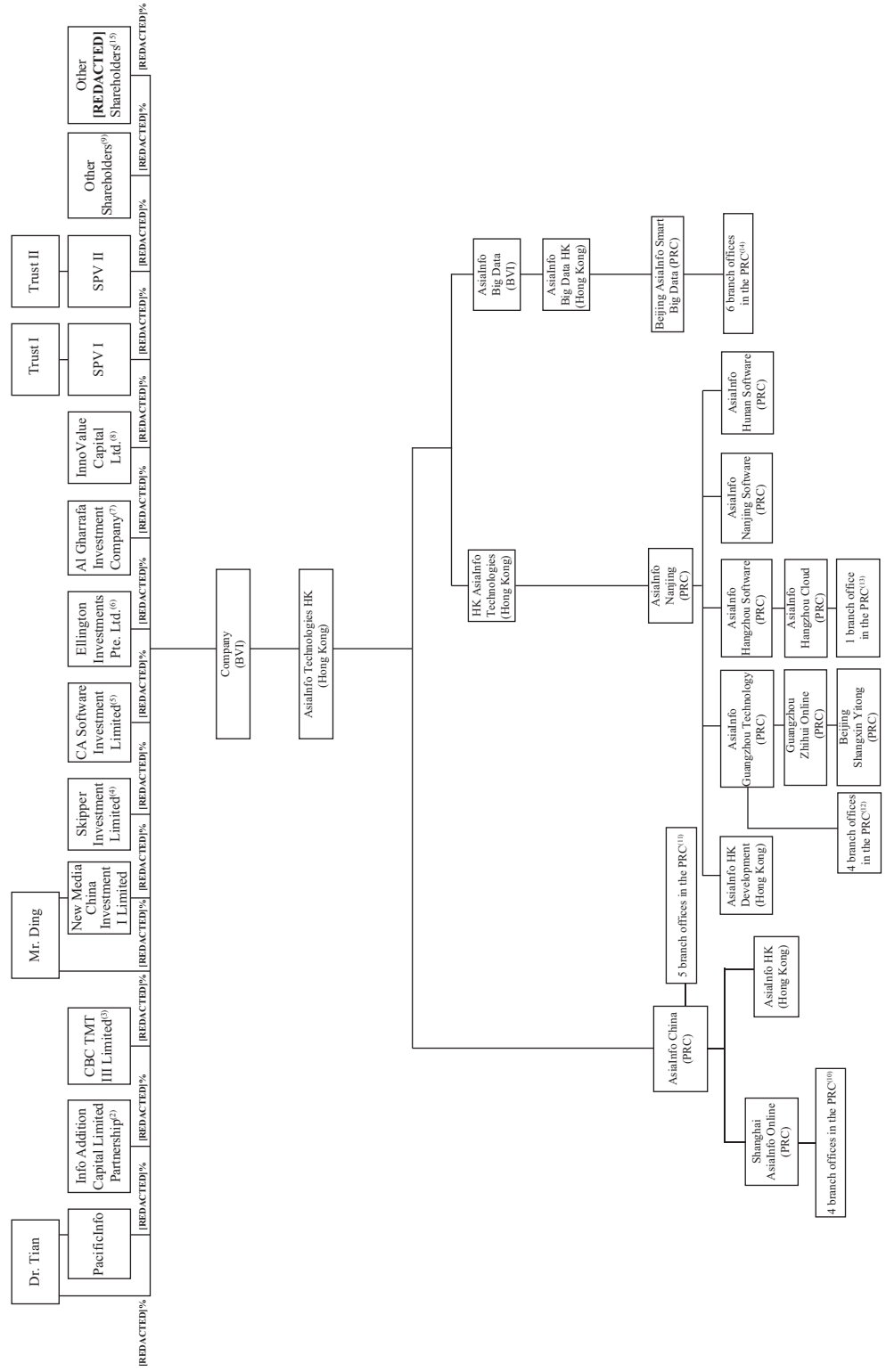
### **Shareholders’ Agreement**

Immediately after the Reorganization, the Company and certain Shareholders, including Skipper Investment Limited, CA Software Investment Limited, Al Gharrafa Investment Company, Ellington Investments Pte. Ltd., CBC TMT III Limited, InnoValue Capital Ltd., World Sun Global Limited, Hongtao Investment-I Ltd (former name known as Eager Info Investments Limited), Zhongjun Wang, Rosehearty Investments LLC, Dr. Tian, PacificInfo Limited, Info Addition Capital Limited Partnership, New Media China Investment I Limited, Mr. Ding, AsiaInfo Resolute Limited I and AsiaInfo Resolute Limited II entered into a Shareholders’ Agreement dated June 26, 2018, pursuant to which certain shareholders of the Company were granted a number of special rights in the Company, including but without limitation pre-emptive rights, anti-dilution rights, information rights and exit rights. The Shareholders’ Agreement and such special rights will terminate effective upon completion of the [REDACTED] in accordance with the terms of the Shareholders’ Agreement.

**HISTORY, DEVELOPMENT AND REORGANIZATION**

**OUR STRUCTURE IMMEDIATELY FOLLOWING THE [REDACTED]**

The following chart sets forth our shareholding structure immediately after the completion of the Share Subdivision and the [REDACTED], without taking into consideration of any Shares that may be issued pursuant to the exercise of the [REDACTED] and the outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme (unless otherwise specified, each subsidiary is 100% owned by its holding company<sup>(1)</sup>):





## HISTORY, DEVELOPMENT AND REORGANIZATION

### Notes:

1. The percentage of the Shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.
2. Dr. Tian is the sole shareholder of Info Addition Limited which in turn is the general partner of Info Addition.
3. Dr. Tian indirectly has full control over CBC Partners II L.P. which is the general partner of China Broadband Capital Partners II, L.P. which in turn is the sole shareholder of CBC TMT III Limited.
4. Power Joy is the holding company of Skipper Investment Limited, which is a direct wholly-owned subsidiary of CITIC Capital China Partners II, L.P.
5. CA Software Investment Limited is wholly-owned by CPEChina Fund, L.P., of which CITIC PE Associates L.P. is the general partner.
6. Ellington Investments Pte. Ltd. is wholly-owned by Bartley Investments Pte. Ltd., which in turn is wholly-owned by Tembusu Capital Pte. Ltd., which in turn is wholly-owned by Temasek Holdings (Private) Limited.
7. Al Gharrafa Investment Company is wholly-owned by Qatar Holding LLC.
8. InnoValue Capital Ltd. is wholly-owned by Ms. LIU Tzu-Lien.
9. Other Shareholders include certain individuals, corporations and partnerships, each of which held no more than 1% shareholding interest in the Company.
10. The 4 branch offices of Shanghai AsiaInfo Online are: Shanghai AsiaInfo Online Technology Limited Beijing Branch; Shanghai AsiaInfo Online Technology Limited Nanjing Branch; Shanghai AsiaInfo Online Technology Limited Guangzhou Branch and Shanghai AsiaInfo Online Technology Limited Chongqing Branch.
11. The 5 branch offices of AsiaInfo China are: AsiaInfo Technologies (China), Inc., Fuzhou Branch; AsiaInfo Technologies (China), Inc. Shenyang Branch; AsiaInfo Technologies (China), Inc. Guangzhou Branch; AsiaInfo Technologies (China), Inc. Shanghai Branch and AsiaInfo Technologies (China), Inc. Chengdu Branch.
12. The 4 branch offices of AsiaInfo Guangzhou Technology are: Guangzhou AsiaInfo Technologies, Inc. Fuzhou Branch; Guangzhou AsiaInfo Technologies, Inc. Chengdu Branch; Guangzhou AsiaInfo Technologies, Inc. Shanghai Branch and Guangzhou AsiaInfo Technologies, Inc. Hangzhou Branch.
13. The 1 branch office of AsiaInfo Hangzhou Cloud is Hangzhou AsiaInfo Cloud Information Technologies Limited Beijing Branch.
14. The 6 branch offices of Beijing AsiaInfo Smart Big Data are: Beijing AsiaInfo Smart Big Data Co., Ltd Nanjing Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Chengdu Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Fuzhou Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Hangzhou Branch; Beijing AsiaInfo Smart Big Data Co., Ltd Shanghai Branch and Beijing AsiaInfo Smart Big Data Co., Ltd Guangzhou Branch.
15. Other [REDACTED] Shareholders refer to persons who become Shareholders of the Company immediately upon [REDACTED].

## COMPLIANCE WITH PRC LAWS AND REGULATIONS

### M&A Rules

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (“M&A Rules”), jointly promulgated by MOFCOM, SAT, SAIC, CSRC, SAFE and SASAC on August 8, 2006 and became effective on September 8, 2006 and was amended on June 22, 2009, govern, among other things, the purchase by foreign investors of equity interests in domestic enterprises, the subscription of the equity interests in domestic enterprises, and the purchase and operation by foreign investors of the assets and business of a domestic enterprise. In addition, the M&A Rules contain provisions which purport to require an offshore special purpose vehicle formed for [REDACTED] purposes and controlled by PRC companies or individuals, to obtain the approval of CSRS prior to the [REDACTED] of its securities on an overseas stock exchange market.

As advised by our PRC Legal Advisor, prior MOFCOM or CSRC approval for this [REDACTED] is not required because our wholly-owned PRC subsidiaries were not established through mergers or acquisitions of domestic companies owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company.

### SAFE Registration in the PRC

Pursuant to the SAFE Circular 37, promulgated by SAFE and which replaced the SAFE Circular 75 and became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the SPV, including,

## HISTORY, DEVELOPMENT AND REORGANIZATION

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among other things, a change of SPV’s PRC resident shareholder(s), the name of the SPV, terms of operation, or any increase or reduction of the SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

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

Dr. Tian completed the registration under the SAFE Circular 37 on July 27, 2018. Other shareholders of the Company who can be identified as the PRC residents as of the date of this **[REDACTED]**, including the employees who indirectly own the shares of the Company through Trust I and Trust II, are applying for their registration under the SAFE Circular 37. However, we cannot assure you that they will be able to complete the relevant registration. See the section headed “Risk Factors—Risks Relating to Doing Business in China—A failure by our Shareholders who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross border investment activities and subject us to liability under PRC laws.”

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### OVERVIEW

We are the leader in China’s telecom software product and related service market and are actively expanding our presence in China’s non-telecom software product and related service market. We provide mission-critical, carrier-grade software products and services that enable Chinese telecom operators and large enterprises to improve business agility, efficiency and productivity and capture new revenue streams while optimizing costs, achieving greater success in the evolving digital era. Our products and services have been deployed by companies within the corporate groups of China Mobile, China Unicom and China Telecom, the world’s largest telecom operators, their government and enterprise customers, as well as leaders in China’s cable TV, postal and financial services industries.

We are the largest telecom software product and related service provider in China, with a market share of 25.3% as measured by revenue in 2017, according to Frost & Sullivan. According to the same source, we are also the largest provider of BSS software products and related services in China, with a market share of 50.0% as measured by revenue in 2017. Our longstanding relationship with China Mobile, China Unicom and China Telecom can be traced back to the 1990s when we participated in the design and construction of numerous landmark information infrastructure projects. Leveraging this strong legacy, we became the provider of China’s first-generation telecom software, and have developed an extensive portfolio of software products and services for telecom operators and accumulated deep insights into their IT and network environment and business and operational needs over the years, creating high barrier to entry. As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had 176, 181, 193 and 199 telecom operator customers, respectively, including the headquarters, provincial, municipal and specialized companies and joint venture of China Mobile, China Unicom and China Telecom, with whom we negotiate and enter into contracts individually and directly. In 2015, 2016, 2017 and the three months ended March 31, 2018, revenue for the Software Business from telecom operators accounted for 87.0%, 88.9%, 93.9% and 96.6% of our revenue from continuing operations, respectively.

Having established our leadership in the technologically-demanding telecom software product and related service market with a full-spectrum, highly-specialized, carrier-grade product portfolio, we have tapped into and are actively expanding our presence in China’s fast-growing non-telecom software product and related service market to address large enterprises’ similar, fundamental needs in business transformation and digitalization. As of December 31, 2015, 2016 and 2017 and March 31, 2018, our enterprise customer base included 23, 26, 28 and 31 large enterprises across multiple industries, respectively. By serving both the telecom and non-telecom markets with shared resources, management, domain expertise and technology know-how, we are able to leverage synergies in winning new businesses and remain cost competitive.

**Software Business.** We are primarily engaged in the provision of mission-critical, carrier-grade software products and related services, as well as a variety of other services (collectively, the “**Software Business**”). Our products and services embrace a holistic approach to business transformation and digitalization:

- **Software products and related services.** We have launched an extensive portfolio of over 500 software products, ranging from CRM, charging & billing and big data to IoT and intelligent network products. Our full spectrum of software products are high-performance, highly-specialized and continuously-innovated and are designed to address the increasingly-complex, mission-critical business and operational needs of telecom operators and large enterprises, serving as vital connections between telecom operators and their end users. Our software products can either add specific capabilities to upgrade a customer’s existing systems as its business evolves or build new systems with local,

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provincial or nationwide coverage from the ground up. Such flexibility enables telecom operators and large enterprises to engage us at any stage of their customer lifecycle. We deliver our software products using the project-based, on-premise delivery model, as accompanied by end-to-end, professional deployment services, ranging from demand analysis, project design and planning, software development and sourcing, system installation and launch to trial operation and acceptance, which integrate our software products with our customers’ existing IT and network infrastructure and maximize the value of our products. After the system is launched, customers typically engage us to provide ongoing operation and maintenance services to ensure the stable functioning of the system.

- **Data-driven operation services.** We are actively exploring new growth opportunities that diversify both ours and our customers’ revenue streams, and have in recent years provided comprehensive data-driven operation services through data-driven operation platforms to telecom operators and their government and enterprise customers to help them increase sales, operational efficiency and customer value. These services primarily include real-time, in-depth analysis of user purchasing and consumption patterns, characteristics and lifecycles and design and implementation of marketing campaigns and management activities.
- **Others.** We also derive revenue from rendering a variety of other services, including procurement of third-party hardware and software for some of our projects, system integration services, business consulting services and corporate trainings.

**Network Security Business.** During the Track Record Period, our results from continuing operations also included results of the Network Security Business. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, to accommodate our customers’ project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We recognized the contract prices of such project development contracts as revenue for the relevant periods based on their percentage of completion, and recorded the same amounts as cost of sales. In consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement, such as contract management, customer relationship management and liaison, we charged AsiaInfo Chengdu service fees which amounted to 2% of the Network Security Transitional Arrangement revenue recognized for the relevant periods, which were offset against cost of sales. We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018. However, some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing. See “Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement” and “—Our Products and Services—Others—Network Security Business” for more details.

Our business continued to grow during the Track Record Period. Our revenue from continuing operations increased from RMB4,764.9 million in 2015 to RMB4,856.0 million in 2016 and further to RMB4,948.3 million in 2017. Our revenue from continuing operations increased by 6.1% from

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RMB966.7 million for the three months ended March 31, 2017 to RMB1,026.0 million for the three months ended March 31, 2018. Our profit for the year from continuing operations was RMB309.8 million, RMB74.0 million, RMB335.2 million in 2015, 2016 and 2017, respectively. Our profit for the period from continuing operations was RMB76.9 million in the three months ended March 31, 2018, compared to loss for the period from continuing operations of RMB61.9 million in the three months ended March 31, 2017. During the Track Record Period, we generated all of our revenues from continuing operations in China.

Excluding the impact of share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] and interest expenses for the Privatization Syndicated Loan, our adjusted profit for the year from continuing operations was RMB470.0 million, RMB253.1 million and RMB547.6 million in 2015, 2016 and 2017, respectively. Our adjusted profit for the period from continuing operations was RMB130.4 million in the three months ended March 31, 2018, compared to adjusted loss for the period from continuing operations in the three months ended March 31, 2017 of RMB28.0 million. See “Financial Information—Non-HKFRS Measures” for more details.

Our revenue from continuing operations for the Software Business increased from RMB4,275.2 million in 2015 to RMB4,514.6 million in 2016, and further to RMB4,824.9 million in 2017. Our revenue from continuing operations for the Software Business increased by 10.5% from RMB924.5 million for the three months ended March 31, 2017 to RMB1,021.8 million for the three months ended March 31, 2018.

Through our active participation and leadership in China’s telecom software product and related service market for many years, we have built a large portfolio of advanced, proprietary technologies such as real-time data processing and distributed computing, and have consistently launched pioneering software products such as the largest telecom billing and settlement system worldwide by number of subscribers and China’s first and only BSS/OSS system with nationwide coverage. Our technology leadership has earned us numerous awards and accolades, including one of the “2018 Top 50 Most Innovative Enterprises in China’s Information Technology Service Industry”, the “2017 Science and Technology Contribution Award” in China’s information technology service industry and one of the “2017 Top 100 Most Competitive Chinese Software and Information Technology Service Providers”, and our AIF infrastructure platform earned the “2017 Telecom Sector Outstanding Solutions Award.” As of March 31, 2018, we maintained a dedicated R&D team consisting of 3,648 personnel, representing 32.5% of our total headcount, and have built an extensive intellectual property portfolio.

We believe our first mover advantage, extensive industry knowledge and expertise and solid market leadership position will continue to set us apart from our competitors and facilitate future cooperation with our customers, driving sustainable, profitable growth. With Chinese telecom operators and large enterprises increasing their software spending as they continue their digital transformation, we endeavor to provide more intelligent software products and services and data-driven operation services that enable them to increase customer value, build broader ecosystem and stay competitive in the upcoming 5G era.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have been the foundation of our strong performance and continued growth, and we expect that they will enable us to enhance our leadership position in China’s telecom software product and related service market and continue expanding our footprint in the non-telecom software product and related service market.



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### **Largest Provider of Telecom Software Products and Related Services in China**

We are the largest provider of telecom software products and related services in China, with a market share of 25.3% as measured by revenue in 2017, according to Frost & Sullivan. According to the same source, we are also the largest provider of BSS software products and related services in China, with a market share of 50.0% as measured by revenue in 2017.

Telecom operators in China require highly-specialized, reliable and scalable software products that are able to support the world’s largest subscriber population across online and offline channels in real-time, which only a few suppliers in China are able to provide. Having collaborated with China Telecom since 1995 and China Mobile and China Unicom since 1999 and actively participated in the formulation of every generation of their BSS/OSS system technical standards, we have developed deep insights into their business and operational needs over the years, which enabled us to develop an extensive portfolio of over 500 software products, ranging from CRM, charging & billing and big data products to IoT and intelligent network products.

Leveraging our extensive product portfolio, as accompanied by end-to-end, professional deployment services, we have served telecom operators across China (including the headquarters, provincial and municipal companies and specialized companies of China Mobile, China Unicom and China Telecom and the headquarters and provincial companies of their joint venture, China Tower), supporting over one billion subscribers nationwide. Our telecom operator customers included, as of March 31, 2018:

- China Mobile’s headquarters, 31 (out of 32) provincial companies, 23 municipal companies and 34 specialized companies;
- China Unicom’s headquarters, 31 (out of 33) provincial companies, 1 municipal company and 14 specialized companies;
- China Telecom’s headquarters, 38 (out of 43) provincial companies, 3 municipal companies and 11 specialized companies; and
- China Tower’s headquarters, three provincial companies and five municipal companies.

Our long-term commitment to, and market leadership position in, China’s telecom software product and related service market have effectively set us apart from our competitors. Our leadership position in the technologically-demanding telecom software product and related service market has also facilitated our expansion into the non-telecom software product and related service market, addressing similar needs of large enterprises in business transformation and digitalization.

### **Long-Term Customer Relationship and Loyal Customer Base**

Our software products and services primarily target Chinese telecom operators and large enterprises. Over the past two decades, we have deployed a large number of large-scale, sophisticated and specifications-intensive software systems to our customers’ satisfaction, through which we have accumulated deep industry understanding and expensive project management skills and technological competencies, establishing high entry barriers. As of March 31, 2018, we had built a large, nationwide customer base primarily comprising 199 telecom operators and 31 large enterprise customers in cable TV, postal and financial services sectors, with whom we negotiate and enter into contracts individually and directly.

As the software systems deploying our products serve as critical elements of the day-to-day operations of our customers, our customers generally prefer to maintain continuity and compatibility of



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these systems and minimize the risks and costs related to integrating disparate systems from multiple vendors, resulting in high customer stickiness. Our customers have demonstrated strong reliance on our products and services, which is evidenced by:

- our high customer retention rate, which was higher than 90% for all customers and 99% for our telecom operator and large enterprise customers in each of 2015, 2016, 2017 and the three months ended March 31, 2018; and
- the long-term framework cooperation agreements we have entered into with a number of our telecom operator and large enterprise customers, which designate us as their preferred provider of BSS/OSS systems.

In addition, our established relationship with our customers have favorably positioned us in addressing their additional software needs, creating opportunities for cross-selling and up-selling. For example:

- Once a system deploying our software products is launched, we are typically engaged by the customer to provide ongoing operation and maintenance services to ensure the stable functioning of the system. The provision of ongoing operation and maintenance services broadens our revenue streams while allowing us to remain in close contact with our customers and to secure more and higher-value engagements as our relationship with our customers matures over time;
- The software systems deploying our products require regular upgrade and expansion to enhance performance, stability and security in line with the growth of our customers’ business, generating repeat purchases. In addition, we are poised to participate in our customers’ ongoing business transformation and digitalization, and have developed next-generation software products for each of China Mobile, China Unicom and China Telecom to consolidate their disparate systems and migrate to cloud and future technology compliant IT platforms, while maintaining business and operational continuity throughout the transition. For example, as of March 31, 2018, we had been engaged by 19 of China Mobile’s provincial companies and 5 specialized companies to transform their legacy IT systems pursuant to China Mobile’s newly-adopted Third-Generation Business Support System General Architecture Specification;
- Our software products and services are also well suited to meet additional needs and demands created within our existing telecom operator customers’ organizations. In recent years, each of China Mobile, China Unicom and China Telecom has also established specialized companies and divisions focusing on specific operational aspects or customer groups (such as their government and enterprise customers which exhibit higher purchase power and require more specialized services than other end users). We have developed various software products targeting these newly-established specialized companies and divisions, such as the Government and Enterprise Customers Self-Service Platform for the government and enterprise business division of China Telecom’s Jiangsu subsidiary in November 2015; and
- Our established relationship with our customers also provides us opportunities to expand our cooperation with them and diversify both ours and our customers’ revenue streams. Leveraging our industry expertise, we have in recent years provided data-driven operation services to telecom operators and their government and enterprise customers through data-driven operation platforms under a pay-as-a-result model.

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The reputation and leading stature of our customers in their respective industries have also served as strong references that can be leveraged in marketing our software products and services to an increasing number of customers in additional industries. For example, we developed the CITIC cloud big-data platform for CITIC Industrial Cloud Co., Ltd. (a wholly-owned subsidiary of China CITIC Group Corporation Ltd.) in 2016 and the integrated CRM system for China Post, the state-owned enterprise operating the official postal service of China, in 2017.

We believe our long-standing, strategic relationship with this large and loyal telecom and large enterprise customer base will continue to favorably position us as their preferred partner in addressing their future needs in terms of system optimization and digital transformation, and enabling us to build strong references as we further expand our customer base.

### **Industry-Leading R&D Capabilities and a Full-Spectrum, Highly-Specialized, Continuously-Innovated Product Portfolio**

We believe our industry-leading R&D capabilities and a full-spectrum, highly-specialized, continuously-innovated product portfolio are able to address Chinese telecom operators and large enterprises’ business needs and effectively differentiate us from our competitors.

***Industry-Leading R&D Capabilities.*** We believe our industry-leading R&D capabilities is one of our core competitive advantages and will continue to effectively set us apart from our competitors. Over the past two decades, we have built a large portfolio of advanced, proprietary technologies, such as real-time data processing and distributed computing, and are also receptive to the application of technologies such as docker and microservices in our products. These technological advances have enabled us to launch a wide variety of highly-specialized software products that consistently meet our customers’ increasingly complex business and operational needs and deliver some of the world’s largest telecom software projects. To stay abreast of the latest industry trends and developments, we have also invested in the integration of various new technologies, such as AI, machine learning & deep learning, IoT and SDN/NFV, into our software products.

We conduct centralized R&D at our product R&D center, building an extensive knowledge base of core assets that can be shared among business divisions, ranging from key products, baseline products, universal components to development and operation tools. This centralized R&D has enabled us to develop highly-specialized, reliable and scalable software products quickly and cost-effectively. For example, we launched our award-winning AIF infrastructure platform in 2015, which is a cloud-based, universal PaaS platform that can be rolled out among our customers that enable them to develop, run and manage industry applications. Our R&D at business division level is more focused on customer-driven customization: the R&D personnel at the relevant business division conducts comprehensive assessment of the relevant customers’ existing IT and network environment, and industry- and company-specific business challenges, objectives and opportunities for both the short- and long-term, which then translate into customized products and services catering to customers’ specific needs and demands.

To ensure the quality, reliability and security of our products and services, we have established a quality assurance system at the company level pursuant to ISO 9001 quality management system standards, ISO 27001 information security management system standards and CMMI Level 5 software process methodologies, the highest level in the industry, and based on our industry experience and best practices, and have formulated comprehensive processes and quantification and deployment standards spreading across all stages of product development and servicing.

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As an investment in our long-term growth, we maintained a dedicated R&D team consisting of our headquarters’ R&D center and our business divisions’ 3,648 R&D personnel as of March 31, 2018, representing approximately 32.5% of our total headcount, located at our headquarters and across our 93 regional offices spanning 28 provinces, municipalities and autonomous regions across China. Among these engineers, approximately 92.7% of them held bachelors’ degree or above and 55.5% had more than five years’ of industry experience. Our R&D capabilities are evidenced by our broad portfolio of industry awards and certifications received over the years, including one of the “2018 Top 50 Most Innovative Enterprises in China’s Information Technology Service Industry”, the “2017 Science and Technology Contribution Award” in China’s information technology service industry and one of the “2017 Top 100 Most Competitive Chinese Software and Information Technology Service Providers”, and our AIF infrastructure platform earned the “2017 Telecom Sector Outstanding Solutions Award.” We have also built an extensive intellectual property portfolio, consisting of 544 software copyright registrations in China and 35 registered patents in China and the United States as of the Latest Practicable Date, which helps ensure that our technologies are competitively differentiated and protected.

***Full-Spectrum, Highly-Specialized, Continuously-Innovated Product Portfolio.*** With these technology strengths, we have developed a full-spectrum of highly-specialized, continuously-innovated software products. These products are purpose-built to address the most prevalent business challenges throughout a telecom operator or large enterprise’s customer lifecycle, from rapid service launch, agile order management to efficient user acquisition and retention, serving as vital connections between our customers and their end users.

***Full-Spectrum.*** With a full-spectrum of over 500 software products, we are able to provide products that either add specific features and capabilities to upgrade a customer’s existing systems as its business evolves or build new systems with local, provincial or nationwide coverage from the ground up. Such flexibility enables our customers to engage us at any stage of their customer lifecycle, such as introducing their first offerings to market, scaling for growth and transforming their entire operations, which eliminates the costs and risks of integrating disparate software products from multiple vendors.

***Highly-Specialized.*** As compared to smaller entities with more basic business needs, telecom operators and large enterprises in China require carrier-grade software products and highly-flexible services from leading providers that are able to support the world’s largest population and a massive amount of transactions and data across online and offline channels in real-time, which only a few suppliers in China are able to provide. Our software products are designed to be high-performance, highly-specialized, scalable and reliable. Powered by real-time data processing technologies, our products are able to support massive number of end users nationwide on a real-time basis across online and offline channels and handle a high volume of requests. Our products are designed with high-availability, disaster-recovery features, which enable fast recovery and effectively prevent data loss in the event of system downtime, ensuring business continuity.

***Continuously-Innovated.*** Our products are continuously innovated in response to emerging technologies and market trends. For example, along with telecom operators’ rapid transition toward more centralized, cost-effective operations, we have architected our software products using the multi-layer, cloud-enabled model, and have helped China Mobile, China Unicom and China Telecom to move certain aspects of their BSS/OSS systems into the cloud that can be accessed by provincial

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networks, achieving centralized management of resources and significant cost-savings. We have also launched Internet of Vehicle platforms for automobiles and automotive part manufacturers and car-sharing service providers, including one of the largest Internet of Vehicle platforms in China in terms of the number of smart terminals supported, which enable vehicle status monitoring, route planning, fleet management and integration with third-party products and services such as location-based services.

We believe our strong R&D capabilities and the full spectrum of highly-specialized, continuously-innovated product portfolio we have accumulated over the years will serve as a sustainable competitive differentiator for us and keep both us and our customers at the forefront of the industry. As our customers continue to reinvent their business models and end user experience to adapt to the digital world and expand their range of services, we remain their trusted technology partner on the path to a 5G, next-generation architecture.

### **End-to-End Professional Deployment Service Capabilities, Custom Development Service Capabilities and High-Standard of Onsite Services Rapidly Meeting Customer Demand**

In order to meet the comprehensive, complex, continuously evolving and high-performance business needs of our customers and ensure the successful delivery of large-scale software systems, we deliver our products through the on-premise, project-based delivery model, accompanied by our end-to-end, professional deployment services. By taking responsibility for the entire project development process with high-standard onsite services, we help our customers achieve time-to-market advantages.

*Dedicated teams and end-to-end professional deployment services.* To meet the varying business and operational needs of our customers, we have formed dedicated business divisions targeting each of our customer groups—China Mobile, China Unicom, China Telecom, cable and media service providers and other enterprise customers—each composed of its own research & development, sales & marketing, project delivery, quality assurance and operation & maintenance personnel with in-depth knowledge about their respective target markets and customer groups. Supported by our centralized R&D, consulting, quality assurance and in-house teams providing other core capabilities, these business divisions interact directly with their respective customer groups and are focused on designing, developing and deploying products and services tailored to customers’ specific business and operational needs. For each project, we assemble a dedicated project development team within the relevant business division, the composition of which is tailored to specific customer needs and requirements, to provide end-to-end professional deployment services throughout project development process, from demand analysis, project design and planning, software development and sourcing, system installation and launch to trial operation and acceptance, rapidly meeting customer demand.

*Custom development service capabilities.* As a critical component of our end-to-end, professional deployment services, our project development team works closely with our customers onsite in terms of demand analysis, project design and planning and custom development. For example, the project development teams conduct comprehensive assessment of the customers’ existing IT and network environment and business and operational needs, based on which they customize our products to the customers’ individual requirements, growth strategies and budgets. Our custom development service capabilities enable us to deliver software products and services tailored to the specific standards and requirements of the respective customer groups, building stronger customer relationships.

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*High-standards of onsite services, localized support and fast response time.* Our services extend beyond initial deployment. Once a system deploying our products is launched, we are typically engaged to provide ongoing operation and maintenance services for the system, including 24/7 system diagnosis, troubleshooting and support and maintaining a dedicated service hotline that responds to service requests within a prescribed time frame in order to minimize disruption to our customers’ business operations. These services are provided by a dedicated operation and maintenance team based at the customers’ premises or at one of our regional offices in close proximity of the customers across our 93 regional offices in close proximity of our customers across 28 provinces, municipalities and autonomous regions. As part of our operations and maintenance services, the dedicated operations and maintenance team also monitors the performance of the installed system to proactively identify potential issues and risks, based on which we periodically release new product version, features and functionalities in order to optimize system performance or respond to our customers’ evolving business needs. In the three months ended March 31, 2018, we released an average of at least two to three key features or upgrades per month for our telecom operator customers.

Our end-to-end, professional deployment services has enabled us to build closer relationships with our customers, providing us with substantial opportunities to expand the scope and scale of our engagements as our customers’ business needs evolve over time.

### **Data-driven Operation Capabilities Powered by AI, Machine Learning, Big Data and Other Technologies Increase Customer Value**

We have in recent years provided comprehensive data-driven operation services to telecom operators and their government and enterprise customers through data-driven operation platforms under a pay-as-a-result model. These services, ranging from real-time, in-depth analysis of user purchasing and consumption patterns and characteristics and lifecycles to design and implementation of marketing campaigns and management activities, are designed to help telecom operators and their government and enterprise customers more comprehensively and accurately analyze market developments and customer trends, ultimately increasing their sales, operational efficiency and customer value.

We believe we are favorably positioned to provide data-driven operation services to telecom operators and their government and enterprise customers leveraging the extensive technical capabilities and industry insights we have accumulated over years of collaboration with telecom operators. With hundreds of in-house developed, big-data based models and algorithms that have been widely applied in various operational scenarios and continuously improved and upgraded, as well as emerging technologies such as AI and machine learning and telecom operators’ existing big data capabilities, our data-driven operation services enable intelligent application of data across departments and domains and more effective data monetization, while allowing us to explore new cooperation opportunities with telecom operators and diversify revenue streams for both parties, achieving a win-win situation. For example:

- We have built a data-driven operation platform for China Mobile’s Beijing subsidiary and have been providing data-driven operation services to one of its government and enterprise customers in the public security sector through this platform, primarily including (i) real-time analysis of population distribution, mobility and clustering patterns within the district, and (ii) real-time analysis of major traffic hubs and tourist attractions’ passenger flow during the holidays. These services effectively strengthen the government and enterprise customers’ capabilities in analysis, aggregation and visualization of massive



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amount of resident data, improve its operational efficiencies and achieve cost saving. For example, after using our data-driven operation services, it now receives over 30 types of up-to-date demographics statistics of the entire district every ten minutes, which eliminates the need to conduct annual household surveys to obtain the district’s demographics statistics;

- We have built a data-driven operation platform for China Mobile Yunnan subsidiary and have been providing data-driven operation services through this platform, including technical support, sales channel management and upgrade and marketing campaign management and optimization. With our data-driven operation services, China Mobile’s Yunnan subsidiary is able to conduct precise marketing through its online and offline sales channels, provide more personalized product and service recommendations to users and increase its sales, operating efficiency and market share; and
- We have built a data-driven operations platform for China Unicom’s Tianjin branch, and have been providing data-driven operation services through this platform, including WeChat Store basic inquiry, payment and processing services, matrix management of multiple WeChat official accounts, message template publication, marketing event management, data analysis and operational support. These services are designed to making WeChat a major online sales channel of China Unicom Tianjin branch by increasing its WeChat official accounts’ subscriber number and activity level and number of transactions. After using our data-driven operation services, China Unicom Tianjin branch’s WeChat official accounts’ number of new subscribers in the fourth quarter of 2017 increased by 180% compared to the same period in 2016.

We believe our innovative data-driven operation services will continue to strengthen our relationships with telecom operators, diversify revenue streams for both parties and differentiate us from our competitors.

### **Seasoned and Visionary Management with Proven Track Record**

We benefit significantly from the extensive industry experience and commitment of our management team. All of our senior management members have over 10 years of work experience in telecom industries. Our founder and chairman, Dr. TIAN Suning, is a highly-regarded technology and software entrepreneur in China with over 23 years of experience in the industry. In addition to founding our company in 1993, Dr. TIAN has also served senior management position in China Netcom from 1999 to 2006, and PCCW, from 2005 to 2007, and founded China Broadband Capital Partners in 2006. Our chief executive officer, Mr. GAO Nianshu, has over 20 years of work experience as senior management in large telecommunications companies. Prior to joining us in 2016, Mr. GAO held senior management positions in China Mobile from 2002 to 2016. Our chief financial officer, Ms. HUANG Ying, has over 25 years of experience in accounting and finance. Prior to joining us in 2017, Ms. HUANG held senior finance positions in China Mobile from 2002 to 2017.

Under the leadership of our management team, we have been able to rapidly grow our product and service portfolio, customer base as well as industry and geographic coverage over the years. We believe that the extensive industry experience, in-depth product knowledge, strong strategic vision and proven execution capabilities of our management team will allow us to continue to execute our growth strategies to achieve further success.



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### OUR STRATEGIES

We endeavor to help telecom operator and large enterprise customers maintain and continuously increase their competitiveness by providing them with digital transformation-related software products and services, leveraging our product, service, integration and operation capabilities. We plan to actively employ advanced technologies (such as AI and related technologies) to improve the efficiency and quality of our product R&D and project delivery and enhance business efficiency and experience of our customers. With the continuous emergence of new technologies and business models, we believe customers will continue to invest significantly in both the traditional telecom market and the steadily expanding emerging business markets. As such, we plan to implement the following strategies and initiatives to achieve our goal:

#### **Reinforce Our Leading Position in the Telecom Software Product and Related Service Market**

China’s telecom software product and related service market is forecasted to experience a higher growth at a CAGR of 11.5% from RMB19.7 billion in 2018 to RMB30.5 billion in 2022, according to Frost & Sullivan. Leveraging the breadth of our existing product portfolio and leadership position, we aim to continue to actively increase customer coverage and market share in this market. We strive to reinforce our leading position in China’s telecom software product and related service market by implementing the following initiatives:

- We will continue to improve the standardization, efficiency and quality of software product development and software project deployment. For example, we have received CMMI Level 5 certification and plan to further standardize our software development and software project deployment process pursuant to the CMMI Level 5 software process methodologies. In addition, we have developed various key products, baseline products, universal components and development and operation tools that can be shared among business divisions. We believe these initiatives will enable us to lower costs, reduce lead time and improve quality, helping our telecom operator customers achieve their business goals;
- We believe that telecom operators’ digital transformation will create substantial business needs, and our customer-centric product evolution strategy has enabled us to obtain more business opportunities during this transformation, including upgrading their existing systems and sell new software products and services. To this end, we will continue to proactively communicate with our existing telecom operator customers and direct our R&D efforts and formulate product roadmap based on industry trends and their evolving business challenges. For example, in order to help telecom operators achieve digital transformation across their online and offline channels, we have launched an open e-commerce platform (社會化電商平台) that integrates third-party products and services into telecom operators’ own e-commerce platforms. It enables centralized channel management, supply chain management and sales support and enriches telecom operators’ product and service offerings; and
- Telecom operators have established various specialized companies and divisions as part of their digital transformation process. We plan to proactively work with these specialized companies and divisions to assess their business and operation challenges and design their business model at an early stage, and provide them with products and services which accelerate their business growth in a timely manner.

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We believe these efforts will accelerate our growth and solidify our stature as China’s largest provider of telecom software products and related services.

### **Actively Expand Our Customer Base in the Non-Telecom Software Product and Related Service Market**

Along with the continued progress of business transformation and digitalization among China-based enterprises, China’s non-telecom software product and related service market is forecasted to experience accelerated growth at a CAGR of 11.1% from RMB285.7 billion in 2018 to RMB435.3 billion in 2022, according to Frost & Sullivan. We believe this market is currently considerably underserved and our products and services for telecom operators can easily be adapted to address similar business and operational needs of enterprises.

We will focus on promoting our software products and services to large enterprises. These enterprises have large-scale operations, operate highly-complex IT and network environments and are under increasing pressure to serve an expanding user base and processing vast amount of transactions which creates increasing demand of business transformation and digitalization, and are likely to realize the greatest value from utilizing our products and services. We plan to expand our enterprise customer base through the following initiatives:

- We plan to promote some of our universal technology platforms and tools to enterprise customers, such as our DevOps integrated development and operation platform, AIF infrastructure platform and data governance tools. These technology platforms and tools are the results of our many years of experience in the telecom market and feature carrier-grade performance and stability. As new technologies including cloud computing, big data, AI, micro-services and DevOps evolve, more and more enterprise customers are willing to apply these new technologies to optimize their business operations and IT support systems (such as the establishment of intelligent customer service systems by applying AI technologies to traditional customer services and formation of agile IT deployment systems through the introduction of micro-services and DevOps technologies to IT support systems). As such, we believe these carrier-grade technical platforms and tools can be widely used in the enterprise markets;
- We intend to promote some of our products developed for the telecom industry that can be used across industries to enterprise customers. For example, we have successfully introduced campaign management, channel management and fundamental CRM products into the postal industry;
- We plan to strengthen our marketing and promotion efforts for non-telecom industries and actively demonstrate our carrier-grade technologies and capabilities accumulated in the telecom market to non-telecom enterprises. For example, we plan to collaborate with third parties that have strong customer base and established sales channels in order to reach more potential customers and gain more sales opportunities; and
- We will actively complement our existing workforce with sales and marketing personnel who have extensive business relationship and service experience in our target industries, which we believe will help us effectively penetrate the large enterprise markets and build service capabilities in these markets.

Through these efforts, we believe we can capture an increasing share of, and expand our customer base in, China’s fast-growing non-telecom software product and related service market.

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### **Actively Explore New Business Opportunities in the Areas of Data-Driven Operation Services, IoT and Intelligent Network**

As China’s telecom operators and enterprises continue their digital transformation, we expect their spending in the areas of data-driven operation services, IOT and intelligent network to continuously increase over the next few years. We believe our core capabilities in these areas will help us secure new business opportunities during such transformation:

- We will focus on exploring growth opportunities in China’s data-driven operation service market. The market size of China’s data-driven operation service market by revenue is expected to grow rapidly at a CAGR of 14.7% from 2018 to 2022, reaching RMB138.3 billion in 2022. We endeavor to strengthen our collaboration with telecom operators and their government and enterprise customers with respect to data-driven operation services—on the one hand to provide data-driven operation services directly to telecom operators, and on the other hand, to collaborate with telecom operators to provide data-driven operation services to their government and enterprise customers across industries—helping telecom operators and their government and enterprise customers increase sales, operational efficiency and customer value and achieving a win-win situation. We have recently established a business division focusing on the provision of data-driven operation services, and plan to continue to organize our internal operations and allocate financial, human and other resources accordingly to facilitate the growth of this business;
- We will actively focus on China’s IoT market, which is expected to produce significant opportunities in the next few years. We have established an innovative “IoT platform + IoT industry application + IoT operation” business model: (i) “IoT platforms” refer to fundamental platform products we provide to telecom operator customers, such as connection management platforms, device management platforms and application enablement platforms; (ii) “IoT industry applications” refer to IoT related industry applications we deliver to enterprise customers across industries either directly or through our collaboration with telecom operators leveraging our competitive advantages in software development. We have developed sophisticated industry applications in the areas of smart community, smart town, smart firefighting, smart travel and Internet of Vehicles; and (iii) “IoT operation” leverages our data-driven operation capabilities to provide enterprises in different industries (such as smart terminal manufacturers) with IoT related capabilities that are required for their customer-facing operations, continuously increasing customer value. We are now exploring this business model in the field of Internet of Vehicles; and
- We also plan to participate in the construction of telecom operators’ intelligent network (including SDN/NFV and 5G networks) as an integrator and software developer. We believe that Chinese telecom operators will continue to invest significantly in SDN/NFV and 5G networks in the future. We plan to act as a vendor-neutral integrator and provide telecom operators with the most flexible solutions and most advanced third-party products in the industry. In addition, we plan to apply AI technologies and develop in-house the new-generation of intelligent network management platforms which enable planning, construction and operation in future network environment. We have formed alliance with various telecom operator customers in these areas.

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Through these initiatives, we believe that we are able to embrace new business opportunities that are created by telecom operators and large enterprises’ digital transformation.

### **Maintain Technology Leadership and Continue to Innovate**

We strive to continue to invest in the R&D of advanced technologies and selectively integrate advanced third-party technologies into our products and services in order to maintain our technology leadership in China’s telecom and non-telecom software product and related service markets, and continue to innovate together with our customers to expand our product and service portfolio. In particular:

- We will continue to introduce advanced technologies, such as AI, machine learning, deep learning, distributed computing and storage, docker, microservices and SDN/NFV and launch technologically-leading products and services in the industry. For example, by applying these technologies, our big data products help customers more efficiently use their data and optimize end user experience;
- We will further streamline our R&D efforts and strengthen our centralized R&D of universal products, product modules and components that can be rapidly rolled out across customers at company level to enhance our R&D efficiency and achieve greater cost savings. For example, we plan to further standardize the structure of our products leveraging our award-winning AIF infrastructure platform;
- We will continue to participate in the formulation of China Mobile, China Unicom and China Telecom’s BSS/OSS system technical standards, which we believe will enable us to adapt to changes in their business models and organizational structure and direct our R&D efforts and product roadmap accordingly. For example, we will continue to upgrade our products and services to support telecom operators’ business operations in future network environment; and
- We plan to participate in additional international standards organizations and industry associations for the telecom and related industries, in order to further amplify our influence in the industry. We are already a member of the TM forum and have strong influence in the BSS field. We also plan to join international standards organizations, industry associations and communities, including the Institute of Electrical and Electronics Engineers, the European Telecommunications Standards Institute, the Open Network Automation Platform, the Third Generation Partnership Project and Global System for Mobile Communications to increase our influence in other related fields in the future.

We believe these initiatives will solidify our technology leadership in China’s telecom and non-telecom software product and related service markets and enable us to capture more business opportunities.

### **Attract, Train and Motivate Key Talents**

We believe our ability to effectively attract, train and motivate talent is critical to our business success. To remain competitive in the dynamically changing digital era, we endeavor to continue to invest in our people and expand our talent pool, and set up appropriate incentives to attract key talents.

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We have engaged in a number of initiatives to achieve this goal:

- We plan to recruit additional software engineers with the requisite skills and expertise and professionals with extensive experience in areas including industry applications or internet-based operations;
- We strive to continue to offer competitive remuneration packages to attract talents. We have established an employee share incentive scheme to further reward and motivate key employees and to better align their interests with ours;
- We will continue to offer employee ongoing training programs tailored for varied positions and skill levels of our employees in areas such as industry knowledge, software technologies and management capabilities;
- We plan to continue partnering with leading universities in China to offer their graduates internship opportunities and attractive career path that incentivize them to achieve or exceed our business objectives; and
- In order to retain talents, we will actively organize corporate events to cultivate a culture of caring, establish an employee honor system and further our employees’ career development opportunities.

We believe these efforts will foster greater loyalty, job satisfaction, engagement and commitment of our employees and lead to our ability to grow in the future and maintain and enhance our standards of service and quality.

### **Selectively Pursue Strategic Alliances and Acquisitions**

We believe that in today’s technology landscape, it is a strategic imperative to work with a multitude of industry participants to build a robust, fully connected ecosystem that centers around and extends our core competencies. As such, we intend to selectively pursue strategic alliances and acquisitions that complement our existing technology portfolios and operational capabilities, broaden our customer base and product offerings and capture new revenue streams. For example:

- we plan to form synergistic strategic alliances with companies that have advanced technologies and products, strong brand influence or extensive customer base, as well as complementary businesses within our ecosystem, in order to better serve telecom operator and large enterprise customers, strengthen our standing with existing customers while winning new ones; and
- we aim to invest in or acquire assets and businesses that complement our business and are consistent with our development strategies, such as developers of innovative software products, in order to accelerate our expansion in new business areas and complement our software product and service capabilities in these areas.

Our growth has been fueled by a number of strategic mergers and acquisitions at different stages of our development. In particular, we became the largest China-based telecom software product and related service provider through our acquisition of Bonson BVI in 2002, and this leadership position was further solidified by our merger with Linkage Technologies International in 2010. We believe these extensive experiences will continue to help us identify and pursue strategic alliances and acquisitions when suitable opportunities arise. Our management plans to carefully evaluate any investment, acquisition or strategic cooperation opportunity that may arise from time to time in order to





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1. Includes revenue from (i) third-party hardware and software procurement, (ii) system integration services, (iii) business consulting services and (iv) corporate trainings.

Our customers include China-based telecom operators and enterprises.

**Telecom Operator Customers.** Over the past two decades, we have provided software products and services to, and have negotiated and entered into contracts individually and directly with, telecom operators within the corporate groups of China Mobile, China Unicom and China Telecom, including:

- their headquarters,
- their provincial companies operating provincial telecom networks,
- their municipal companies,
- their specialized companies focusing on specific operation aspects or customer groups, such as China Mobile Online Services Co., Ltd., China Mobile’s specialized subsidiary in charge of its online operations, and
- their joint venture, China Tower, including its headquarters and provincial companies (collectively, “**telecom operators**”).

**Enterprise Customers.** Since 2010, we have also been providing software products and services to (i) China-based large enterprises in cable TV, postal and financial services industries, and to a lesser extent, (ii) small- to medium-sized enterprises in selected industries, such as mobile virtual network operators (“**MVNOs**”).

|  | For the year ended December 31, |       |           |       |           |             | For the three months ended<br>March 31, |             |             |       |
|--|---------------------------------|-------|-----------|-------|-----------|-------------|---|-------------|-------------|-------|
|  | 2015                            |       | 2016      |       | 2017      |             | 2017                                    |             | 2018        |       |
|  | RMB’000                         | %     | RMB’000   | %     | RMB’000   | %           | RMB’000                                 | %           | RMB’000     | %     |
|  |                                 |       |           |       |           | (unaudited) | (unaudited)                             | (unaudited) | (unaudited) |       |
| <b>Revenue from continuing operations</b>    |                                 |       |           |       |           |             |   |             |             |       |
| <b>Software Business:</b>                    |                                 |       |           |       |           |             |   |             |             |       |
| Telecom operators <sup>1</sup> . . . . .     | 4,143,903                       | 87.0  | 4,314,101 | 88.9  | 4,644,559 | 93.9        | 897,960                                 | 92.9        | 990,873     | 96.6  |
| Large enterprises . . . . .                  | 53,133                          | 1.1   | 87,329    | 1.8   | 112,465   | 2.3         | 16,588                                  | 1.7         | 24,124      | 2.3   |
| Small- to medium-sized enterprises . . . . . | 78,204                          | 1.6   | 113,215   | 2.3   | 67,855    | 1.3         | 9,944                                   | 1.0         | 6,761       | 0.7   |
| <b>Total Software Business</b> . . . . .     | 4,275,240                       | 89.7  | 4,514,645 | 93.0  | 4,824,879 | 97.5        | 924,492                                 | 95.6        | 1,021,758   | 99.6  |
| <b>Network Security Business</b> . . . . .   | 489,631                         | 10.3  | 341,308   | 7.0   | 123,445   | 2.5         | 42,241                                  | 4.4         | 4,197       | 0.4   |
| <b>Total</b> . . . . .                       | 4,764,871                       | 100.0 | 4,855,953 | 100.0 | 4,948,324 | 100.0       | 966,733                                 | 100.0       | 1,025,955   | 100.0 |

<sup>1</sup>. Including each of China Mobile, China Unicom, China Telecom and China Tower’s: (i) headquarters, (ii) provincial companies, (iii) municipal companies, and (iv) specialized companies, with whom we negotiate and enter into contracts individually and directly.

During the Track Record Period, we operated software business serving telecom operators headquartered in South East Asia, Europe and other regions outside the PRC (the “**International Business**”), which was disposed of in June 2016. We recorded the results of the International Business as discontinued operations during the Track Record Period. Separately, we acquired AsiaInfo Big Data, which was mainly engaged in the provision of big data software products and services to telecom operators, in December 2017 (the “**Acquisition**”). AsiaInfo Big Data was also engaged in the provision of software products and services that enable government bodies and public institutions to provide e-public services, such as smart city and e-government services (the “**E-public Service Business**”). The major entities comprising the E-public Service Business had been disposed of in November 2017 prior to the completion of the Acquisition in December 2017. The few remaining contracts of E-public

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Service Business have been completed as of March 31, 2018. Given that our combined financial statements are required to present the results, cash flows and financial position of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, we also recorded the results of the E-public Service Business as discontinued operations during the Track Record Period. See “Relationship with the Controlling Shareholders”, “Financial Information—Description of Major Components of Our Results of Operations”, Note 12 to “Appendix I—Accountants’ Report” and Note 10 to “Appendix IA — Condensed Combined Financial Statements” for more details.

### OUR PRODUCTS AND SERVICES

We have developed a broad spectrum of software products for China-based telecom operators and enterprises, especially large enterprises. Our software products are accompanied by our end-to-end, professional deployment services and are deployed using the on-premise, project-based delivery model. To further complement our product and service portfolio and diversify our revenue streams, we have in recent years collaborated with telecom operators to provide data-driven operation services through data-driven operation platforms under a pay-as-a-result model.

#### Software Products and Related Services

We offer a comprehensive portfolio of mission-critical, carrier-grade software products to telecom operators and enterprises, especially large enterprises, in China. Our product portfolio currently consists of over 500 software products, ranging from CRM, charging & billing and big data products to IoT and intelligent network products. These products are designed to automate, streamline and improve the legacy business and operation infrastructure of telecom operators in China to achieve enhanced business agility, efficiency and productivity while optimizing costs.

Our software product portfolio consists of the following product lines:

**CRM products.** Customer relationship management (CRM) products are widely-implemented for managing an enterprise’s interactions with existing and potential end users. Our CRM products provide comprehensive functionalities, covering an enterprise’s full customer lifecycle (such as user profile management, order management and campaign management), helping our customers provide high-quality, fully-integrated customer services to end users at every point of interaction, from retail stores, call centers and websites to mobile apps and social media platforms. These products help enterprises conduct comprehensive analysis on the needs and preferences of their end users, enabling them to improve the efficiency of their sales and marketing and customer services, attract, serve and retain end users, build stronger customer relationships and increase value of their end users. For example,

- our customer service products enable our customers to provide a broad range of services (voice services, multi-media messaging services, Internet services and other services) to a massive number of end users;
- our campaign management products enable our customers to conduct integrated advertisement, sales, marketing, promotion and public relations activities, improve sales and marketing efficiency and enhance end user satisfaction; and
- our fundamental CRM products are a suite of standardized products with universal business capabilities which are developed based on telecom operator and large enterprise

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customers’ common needs in the CRM area, including customer center, product center, channel center, activation center, order center and marketing resources center. Our fundamental CRM products help customers build up enterprise-grade CRM capabilities cost-efficiently and rapidly.

The following table sets forth details of our CRM products:

| <u>Major product categories</u> | <u>Functionalities</u>   | <u>Key products</u>   |
|---------------------------------|--|---|
| Customer services products      | <p>Supports a broad range of customer services (including, among others, voice services, multi-media messaging services and Internet services) and both the active and passive service models</p> <p>Customer service center product supports tens of thousands of call center consoles and centralized PC access, decentralized mobile access, home access and other access methods</p>   | <ul style="list-style-type: none"> <li>• Nine o’clock Super Care Product</li> <li>• Knowledge Base System</li> </ul>  |
| Campaign management products    | <p>Helps enterprises more efficiently organize their business operations and campaign activities, drive end user participation and achieve cross selling</p> <p>Helps enterprise create a brand new marketing model powered by our campaign management products’ brand marketing, customer-relation marketing and data marketing capabilities, which enables integrated advertisement, sales, marketing, promotion and public relations activities, improves sales and marketing efficiency and enhance end user satisfaction, brand influence and media attention</p> | <ul style="list-style-type: none"> <li>• Marketing Support Platform</li> <li>• Grid Marketing Management Platform</li> <li>• Network-wide Care Platform</li> <li>• Integrated Operation Platform</li> <li>• Enterprise Customer Sales Center</li> </ul> |
| Channel management products     | <p>To meet the around-the-clock shopping needs of consumers, our channel management products handle all types of services across all channels (including offline channels, e-commerce channels and mobile e-commerce channels) in a smart manner</p> <p>Our channel management products are consumer centric and take a holistic view of consumer, product, time and location to provide personalized services and enhance customer experience, which in turn help enterprises improve operating efficiency</p>  | <ul style="list-style-type: none"> <li>• Self &amp; Social Channel Management System</li> <li>• Channel Consumption Management Platform</li> <li>• Channel Lifecycle Management Product</li> <li>• Star-rating Management System</li> </ul>             |
| E-channel products              | <p>Help enterprises build integrated operation platforms for all online and offline channels, integrating supply and demand across the supply chain (such as suppliers and consumers)</p> <p>Enhances channel efficiency, lowers customer service costs while providing end users with one-stop-shop experience</p>  | <ul style="list-style-type: none"> <li>• Online Self-Service Center</li> <li>• Distribution Platform—Platform Business Portal</li> <li>• Distribution Platform—Distributor Portal</li> <li>• Distribution Platform—Supplier Portal</li> </ul>           |

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| Major product categories             | Functionalities   | Key products   |
|--------------------------------------|---|--|
| Fundamental CRM products             | <p>A suite of standardized products with universal business capabilities which are developed based on telecom operator and large enterprise customers’ common needs in the CRM area</p> <p>Help customers build up enterprise-grade CRM capabilities cost-efficiently and rapidly</p> | <ul style="list-style-type: none"> <li>• Order Center</li> <li>• Customer Center</li> <li>• Product Center</li> <li>• Activation Center</li> <li>• Marketing Resources Center</li> </ul> |
| AIF Infrastructure platform products | <p>Basic frameworks support elastic computing</p> <p>Supports formulation of cloud-based architecture for application services and management of services</p>   | <ul style="list-style-type: none"> <li>• Technology Foundations</li> <li>• IPU Mobile Application Development Platform</li> <li>• Application Foundations</li> </ul>                     |

**Charging & billing products.** Charging & billing products are essential components of BSS/OSS systems and are widely used by enterprises to monetize services ranging from traditional telecom to modern digital services. We offer a complete portfolio of charging & billing software products providing all major charging and billing functions including billing, rating, charging and settlement. These products enable real-time management of the charging & billing related activities of all end users, regardless of user types (individual, family or business), payment methods (prepaid, postpaid or hybrid), network technologies (fixed, IP or wireless) or service types (voice, data, messaging or video), providing valuable, consolidated customer insights. Our charging & billing products also feature a unified rating engine that provides flexible pricing mechanisms and a memory database technology that supports complex rating and billing activities, enabling our customers to offer innovative and personalized service bundles that attract new end users and build loyalty among existing end users.

The following table sets forth details of our charging & billing products:

| Major product categories                           | Functionalities  | Key products   |
|--|--|--|
| Billing management products                        | Supports customer bill generation, electronic invoice generation and settlement management for third-party business partners   | <ul style="list-style-type: none"> <li>• Account Center</li> <li>• Payment Center</li> <li>• Settlement Center</li> <li>• Integrated Reporting System</li> </ul> |
| Fundamental billing products                       | Enables centralized management of all fundamental billing processes  | <ul style="list-style-type: none"> <li>• Cloud-based Billing Product</li> <li>• Convergent Billing Product</li> </ul>  |
| Accounting management & revenue assurance products | Supports business accounting management, product accounting management and revenue assurance   | <ul style="list-style-type: none"> <li>• Financial Data Center</li> <li>• Revenue Assurance System</li> </ul>  |
| Mediation & service provisioning products          | <p>Enables mediation, pre-processing and monitoring of metadata and other billing sources</p> <p>Enables service provisioning and configuration of network resources</p> | <ul style="list-style-type: none"> <li>• Integrated Mediation System</li> <li>• Unified Provisioning System</li> </ul>   |
| Billing platform products                          | Enables formulation of cloud-based architecture for billing application services   | <ul style="list-style-type: none"> <li>• Billing Distributed Stream Framework Platform</li> </ul>  |

**Big data products.** Our big data products collect, process and analyze massive amounts of data scattered across many different online and offline channels in real time, and help our customers extract

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value and intelligence from these data to make more informed business decisions, better serve end users, promote products and services, design products, services and business processes and reduce risks. These products feature advanced analytics technical, algorithms and machine learning techniques and enable real-time analysis, visualization and management of complex data, assisting our customers in solving increasingly prevalent information-related challenges.

The following table sets forth details of our big data products:

| <u>Major product categories</u>           | <u>Functionalities</u>  | <u>Key products</u>  |
|---|---|--|
| Big data application products             | <p>Applications powered by data convergence and data mining technologies improve enterprises’ overall operating capabilities and efficiency</p> <p>Provides innovative big data application solutions that enable enterprises across industries to monetize data and transform business operations in a smarter manner</p>  | <ul style="list-style-type: none"> <li>• Marketing Management Center</li> <li>• Intelligent Recommendation Center</li> <li>• Decision Support Center</li> <li>• Geographical Label Data Management Platform</li> </ul> |
| Big data processing & management products | <p>Data-oriented management platforms covering the entire data lifecycle (planning, definition, model design, data development, data collection, data creation, data consumption, data filing and data retention)</p> <p>Build standardized, process-oriented, automated and integrated data management systems that enable integrated management of data, applications and systems, ensuring appropriate data structure, clear data organization, well-controlled process and rapid data accumulation</p> <p>Enable full-process, full lifecycle, 360 degree comprehensive data management</p> | <ul style="list-style-type: none"> <li>• Content Analysis Center</li> <li>• Tag Management Center</li> <li>• Data Governance Product</li> <li>• Data Security Center</li> </ul>  |
| Big data platform products                | <p>Help enterprises build big data platforms adopting internationally accepted standards and industry standards and featuring unified open source component database and software tool database</p> <p>Deliver core big data capabilities including data channel establishment, data storage, machine learning and platform security, suitable for telecom operators and large enterprises’ business operations</p>   | <ul style="list-style-type: none"> <li>• Machine Learning Platform</li> </ul>  |

**Other products.** We offer a variety of other software products that address a broad spectrum of needs and specifications of telecom operators and large enterprises, spanning DevOps integrated development and operation products, IoT products to intelligent network products.

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The following table sets forth details of our other products:

| <u>Major product categories</u>                      | <u>Functionalities</u>   | <u>Key products</u>  |
|--|--|--|
| DevOps integrated development and operation products | Products that manages the communication, cooperation and process among the software development, technical operations and quality assurance departments  | <ul style="list-style-type: none"> <li>• Software Lifecycle Management Product</li> <li>• Continuous Integration and Continuous Delivery Product</li> <li>• Automated Testing Product</li> <li>• Operation &amp; Maintenance Optimization Product</li> </ul> |
| IoT products   | Enables IoT industry applications and platform capabilities  | <ul style="list-style-type: none"> <li>• IoT Application</li> </ul>  |
| Intelligent network products                         | <p>Supports dynamic monitoring of virtual networks; using AI technologies to establish and train intelligent network optimization models and provide dynamic tuning functions to help customers prevent network failures, improve application experience and enhance network operation quality</p> <p>Supports dynamic monitoring, analysis and O&amp;M management of business operation systems</p> | <ul style="list-style-type: none"> <li>• SDN/NFV Product</li> <li>• Business and Operation Network Management Product</li> </ul>   |

Our software products are deployed using an on-premise, project-based delivery model, and are accompanied by our end-to-end, professional deployment services. See “—Deployment services” for more details.

We have also launched a line of operations products for rendering of our data-driven operation services, such as our Smart Operations platform and Smart Sharing platform. See “—Data-Driven Operation Services—Our Operations Products” for more details.

### ***Deployment services***

The delivery of our products is accompanied by a comprehensive set of professional deployment services, from demand analysis, project design and planning, software development and sourcing, system installation and launch to trial operation and acceptance. These deployment services integrate our software products with our customers’ existing IT and network infrastructure and maximize the value of our products.

Our deployment services are provided together with our products pursuant to project development contracts with our customers, and the estimated costs of these services are reflected in the contract prices of the project development contracts, which are typically fixed amounts. See “—Agreements with customers—Project development contracts” for more details.

### ***Operation and maintenance services***

Customers of our software products and related services generally engage us to provide ongoing operation and maintenance services to ensure the stable functioning of the installed system. We provide comprehensive operation and maintenance services ranging from system monitoring, maintenance and recovery, performance management, software and hardware repair and replacement,



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specified system upgrades and handling of customer inquiries and complaints, with the specific scope of services agreed upon between our customers and us on a project by project basis pursuant to operation and maintenance service agreements with our customers. See “—Agreements with customers—Operation and maintenance agreements” for more details. Our operation and maintenance services are chargeable services provided in addition to product warranties for our software products, which are generally for a term of 12 months and are limited to product repair and maintenance and are provided free-of-charge.

We assemble a dedicated operation and maintenance team for each system, composed of, among others, a specified number of highly-trained software engineers, who are able to quickly diagnose and resolve system performance problems. Each software engineer is subject to the customer’s assessment, training and approval before the provision of services, and is subject to the customer’s ongoing evaluation in terms of technical expertise and service quality.

Our operation and maintenance teams are located in our regional offices in close proximity to our customers or on-site at our customers’ premises. Each operation and maintenance team maintains a dedicated service hotline that responds to customer’s service requests within a prescribed time frame and provides on-site or remote diagnosis, troubleshooting and support on a 24/7 basis. Our operation and maintenance teams also conduct continuous system monitoring to optimize their availability and performance and proactively identify potential issues and risks.

### **Software products and related services case studies**

The following table sets forth examples of projects deploying our software products and related services:

| <b>Name of project</b>  | <b>Project description</b>   |
|---|--|
| Integrated CRM system for China Mobile Online Service Limited (中移在線一體化客服系統)                           | <ul style="list-style-type: none"> <li>• China Mobile’s integrated BSS/OSS system with nationwide coverage</li> <li>• Supports the operations of China Mobile’s 10086 customer service hotline for 31 provinces and certain dedicated consoles</li> <li>• Features customer services products from our CRM product line</li> </ul>   |
| Open e-commerce platform for China Mobile Jiangxi (江西移動社會化電商平台)                                       | <ul style="list-style-type: none"> <li>• China Mobile’s first system that enables integration of online and offline sales channels</li> <li>• A landmark project for the new generation of telecom operators’ e-commerce business</li> <li>• Enables unified sales and marketing and supply chain, inventory and order management across online and offline channels</li> <li>• Features e-channel products from our CRM product line</li> </ul> |
| Internet of Vehicles T platform for China Mobile’s Government and Enterprise Branch (中國移動政企分公司車聯網T平台) | <ul style="list-style-type: none"> <li>• One of the largest Internet of Vehicles platforms in China in terms of the number of smart terminals supported</li> <li>• Delivers core Internet of Vehicle capabilities such as unified data, device and operation management, collection of massive data by smart terminals and big data analytics</li> <li>• Features our IoT products</li> </ul>  |
| Precision marketing platform for China Unicom Guangdong (廣東聯通精準營銷平台)                                  | <ul style="list-style-type: none"> <li>• China Unicom Guangdong’s first precision marketing platform which is highly recognized by China Unicom Guangdong</li> <li>• Enables telecom operators to conduct precision marketing</li> </ul>   |

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| Name of project  | Project description   |
|--|---|
|  | <ul style="list-style-type: none"> <li>• Convenient text message ordering and one-click purchase enhances user experience</li> <li>• Features campaign management products from our CRM product line</li> </ul>   |
| Online and offline integration for China Unicom Shanxi (山西聯通線上線下一體化平台) | <ul style="list-style-type: none"> <li>• China Unicom’s first system that enables integrated order and payment management across online and offline channels</li> <li>• Features channel management products from our CRM product line</li> </ul>   |
| Intelligent CRM system for China Mobile (中國電信智慧CRM)                    | <ul style="list-style-type: none"> <li>• The first system implemented according to China Telecom’s intelligent BSS technical standards</li> <li>• Enables emerging technologies such as big data analytics</li> <li>• Features fundamental CRM products from our CRM product line</li> </ul>  |
| Cloud-based billing system for China Telecom Sichuan (四川電信計費雲化系統)      | <ul style="list-style-type: none"> <li>• The first cloud-based billing system for China Telecom’s provincial companies</li> <li>• Convergent billing system that supports universal management of all online and offline billing services</li> <li>• Features fundamental billing products from our charging &amp; billing product line</li> </ul>  |
| CRM system for China Post (中國郵政集團客戶關係管理系統)                             | <ul style="list-style-type: none"> <li>• One of the largest and most sophisticated CRM systems in the industry</li> <li>• Enables integrated management and support of customers, products, channels, sales and marketing and big data analytics across multiple industries, including postal, logistics and financial services</li> <li>• Features fundamental CRM products from our CRM product line</li> </ul> |

### Agreements with customers

#### *Project development contracts*

We enter into project development contracts with our customers for the provision of our software products and related deployment services. These agreements are usually based on our customers’ standardized form of agreements and include the following key terms:

- *Duration.* The terms of our project development contracts with our customers generally range from six months to two years, depending on the complexity of the projects and the software products to be deployed.
- *Scope of work.* The project development contracts specify our responsibilities throughout the project development process, the software products to be developed and a specified level of deployment services we will provide throughout the project development life cycle.
- *Delivery milestones.* The project development contracts provide for several delivery milestones, generally including system launch, initial acceptance and final acceptance. We generally grant our customers a trial operation period ranging from three to six months after the completion of initial acceptance. Final acceptance is conducted upon the expiration of the trial operation period by the customer or third-party acceptance agencies appointed by the customer. We may be subject to penalties or a corresponding contract price reduction for failure to adhere to the prescribed delivery milestones caused by us.

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- *Pricing, credit and payment terms.* The contract price for our project development contracts is typically a fixed amount consisting of: (i) estimated costs for project execution and delivery, and (ii) estimated procurement costs for third-party hardware and software, if applicable. We generally require a deposit that ranges between 10% to 50% of the contract price upon signing the project development contracts, with the remaining contract price paid in installments pursuant to delivery milestones. We generally grant a credit term of 30 days to our customers.
- *Intellectual property.* In general, we own the intellectual property rights of the baseline of the software products that we have developed in-house, while intellectual property rights related to the custom designed part of the software products are jointly owned by us and the customer or solely owned by the customer.
- *Termination.* Our project development contracts may be terminated by either party upon the occurrence of certain specified events, such as a force majeure event or a material breach that cannot be rectified within a prescribed time period.

### *Operation and maintenance service agreements*

We enter into operation and maintenance service agreements with our customers for the provision of our operation and maintenance services, which are generally based on the customers' standardized form and include the following key terms:

- *Duration.* Our operation and maintenance service agreements with our customers generally have a one-year term and are renewable upon mutual agreement.
- *Scope of work and performance targets.* The operation and maintenance service agreements specify our responsibilities throughout the service period, the composition of the operation and maintenance teams and the level and scope of operation and maintenance services we will be providing. The agreements provide for monthly, quarterly and/or annual performance targets, including (i) the length of scheduled and unscheduled system downtime, system failures or interruptions, (ii) the time to handle system failures or interruptions, and (iii) quality and responsiveness of services. Failure to meet these performance targets will result in monetary penalties or a corresponding price reduction for the following year, based on a prescribed formula in the agreements.
- *Pricing, credit and payment terms.* We generally charge a fixed amount for our operation and maintenance services, which is based on the estimated costs to be incurred by the relevant operation and maintenance team. The contract price is generally paid in quarterly installment, and we sometimes require a deposit that ranges between 10% to 25% of the contract price upon signing the operation and maintenance agreements. In some circumstances, we are paid every quarter based on the actual number of days our operation and maintenance team has worked pursuant to an agreed day-rate. We generally grant credit terms of 30 days to customers of our system operation and maintenance services.
- *Termination.* Our operation and maintenance service agreements may be terminated by either party upon the occurrence of certain specified events, such as a force majeure event or a material breach that cannot be rectified within a prescribed time period.

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### Data-Driven Operation Services

We have in recent years provided comprehensive data-driven operation services to telecom operators and their government and enterprise customers. Through the data-driven operation platforms we have developed, these services enable telecom operators and their government and enterprise customers to conduct real-time, in-depth analysis of user purchasing and consumption patterns, characteristics and lifecycles and design and implement marketing campaigns and management activities accordingly, which in turn help them increase sales, operational or management efficiency and customer value and build innovative big-data oriented business ecosystems.

We believe we are well-positioned to provide data-driven operation services to telecom operators and their government and enterprise customers leveraging the extensive technical capabilities and industry insights we have accumulated over years of collaboration with telecom operators. We have developed hundreds of big-data based models and algorithms, including cluster analysis, customer behavior prediction, critical factor analysis and semantic recognition that have been widely applied in various operational scenarios and continuously improved and upgraded. These advanced models and algorithms, combined with emerging technologies including AI and machine learning, as well as telecom operators’ existing big data capabilities, enable intelligent application of data across telecom operators’ or their government and enterprise customers’ various departments and domains. As we accumulate more data-driven operation experience, we are also actively exploring collaboration opportunities with enterprise customers, such as automobile manufactures, in this area.

We provide data-driven operation services through data-driven operation platforms we have developed according to telecom operators or their government and enterprise customers’ operational or management needs. Telecom operators or their government and enterprise customers’ staff can conveniently access our data-driven operation services through a user-friendly web interface anytime, anywhere. We also provide onsite, 24/7 operational support when needed.

Our data-driven operation services generally adopt a pay-as-a-result model, under which our customers pay us based on business results, such as increase in monthly data usage and number of new subscribers every month. See “—Operational Support Agreements” for more details. As a provider of data-driven operation services, we deploy our data-driven operation platforms on telecom operators’ private clouds and conduct data authority control and data security audits in strict compliance with the relevant laws, regulations, data security management protocols and processes to ensure the legality and security of user data privacy.

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### Our operations products

Our data-driven operation services are typically provided through data-driven operation platforms we develop for telecom operators. These platforms are developed by adding specific features or functionalities to products from our operations product line. The following table sets forth details of our operations products:

| <u>Major product categories</u> | <u>Functionalities</u>  |
|---------------------------------|---|
| Smart Sharing (智享)              | Data-driven operation platform products that enable real-time analysis of demographics statistics, abnormal event monitoring, financial statistics analysis and emergency response services and other functionalities                   |
| Smart operations (智營)           | Supports scenario-based marketing, enables users to quickly design and implement marketing campaigns through a user-friendly web interface, improves sales staff and sales channels' operating efficiency                               |
| Smart store (智店)                | Enables retail operations using data mining technologies  |
| Smart Info (智信)                 | Supports a complete WeChat integration for telecom operators and enterprises' businesses to provide various digital services to end users, such as inquiry, payment, processing and redemption  |
| Smart Connection (智聯)           | Enables Internet of Vehicles data monetization, including establishing connections between vehicles and the Internet, connects enterprises and customers and customers and services, closing the loop of Internet of Vehicles ecosystem |

### Operational support agreements

We generally enter into one-year operational support agreements with our customers for our data-driven operation services, which are generally based on the customers' standardized form and include the following key terms:

- *Duration.* Our operational support agreements with our customers generally have a one-year term and are renewable upon mutual agreement.
- *Scope of work and performance targets.* The operational support agreements specify our responsibilities throughout the contract period, the composition of our project development teams and the level and scope of data-driven operation services we will provide (for example, whether we will be developing new operations platforms or provide any onsite operational support). The agreements typically provide for monthly or quarterly performance targets, such as (i) number of new subscribers, (ii) number of transactions, and (iii) quality of onsite operational support services. Failure to meet these performance targets will result in a corresponding price reduction for our contract price, based on a prescribed formula in the agreements.
- *Pricing, credit and payment terms.* The contract price of our operational support agreements is generally paid in quarterly installment, with around 60% of the contract price paid to us as a fixed rate and around 40% of the contract price paid to us based on our completion of the monthly and/or quarterly performance targets. We generally grant credit terms of 30 days to customers of our data-driven operation services.
- *Termination.* Our operational support agreements may be terminated by either party upon the occurrence of certain specified events, such as a force majeure event.



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**Data-driven operation services case studies**

**Case study one:**

**Customer:** China Mobile’s Beijing subsidiary

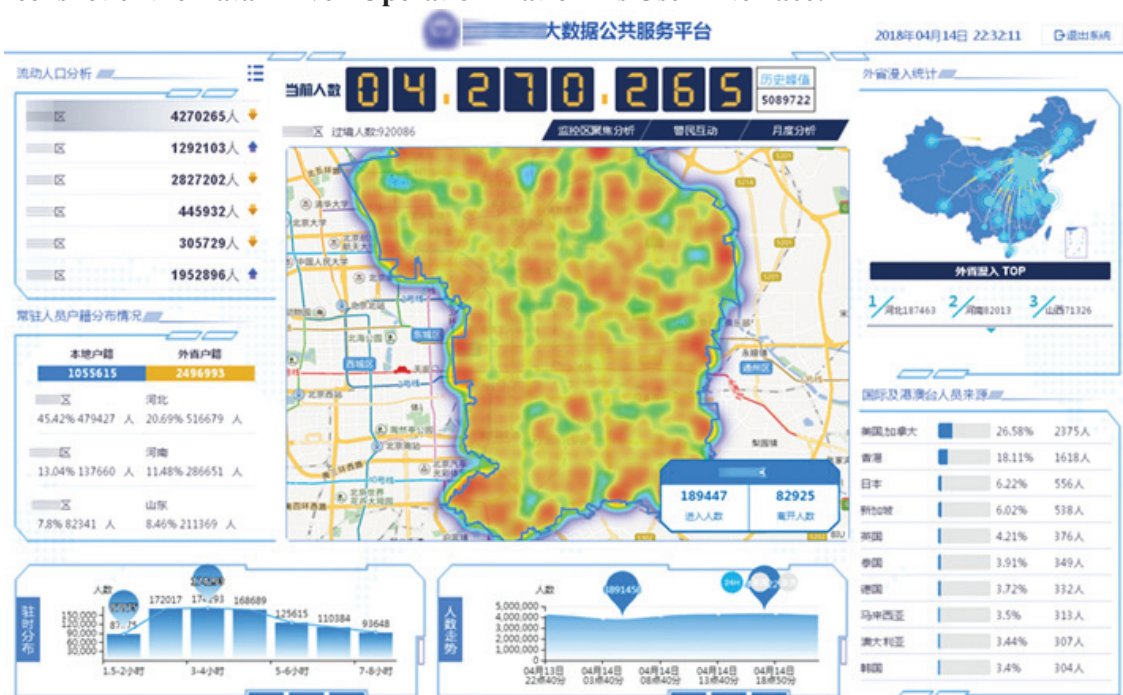
**End User:** A government and enterprise customer of China Mobile Beijing subsidiary in the public security sector in a district of Beijing

**End User’s Primary Needs:** To analyze passenger flow, monitor traffic hubs and manage floating population and resident population within district, facilitate interaction between the police and the public.

**Our Data-Driven Operation Services:** We have built a public security-sector data-driven operation platform for China Mobile’s Beijing subsidiary using “Smart Sharing” platform product from our operations product line. Leveraging China Mobile Beijing subsidiary’s big data capabilities, we provide data-driven operation services to the end user through this platform, primarily including (i) real-time analysis of the population distribution, mobility and clustering patterns within the district, provides data support for deployment of police resources and investment in public security and improve the end user’s internal operation efficiency, and (ii) real-time analysis of major traffic hubs and tourist attractions’ passenger flow during the holidays.

**Results of Data-Driven Operation Services:** our data-driven operation services effectively improve the end user’s capabilities in the analysis, aggregation and visualization of massive amount of resident data, help the end user conduct more effective administrative management (such as floating population management) and abnormal event monitoring, provide smart community services, improve operational efficiencies and achieve cost saving. For example, after using our data-driven operation services, the end user receives over 30 types of up-to-date demographics statistics of the entire district every ten minutes, which eliminates the need to conduct annual household surveys to obtain the district’s demographics statistics.

**Screenshot of the Data-Driven Operation Platform’s User Interface:**





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### Case study two:

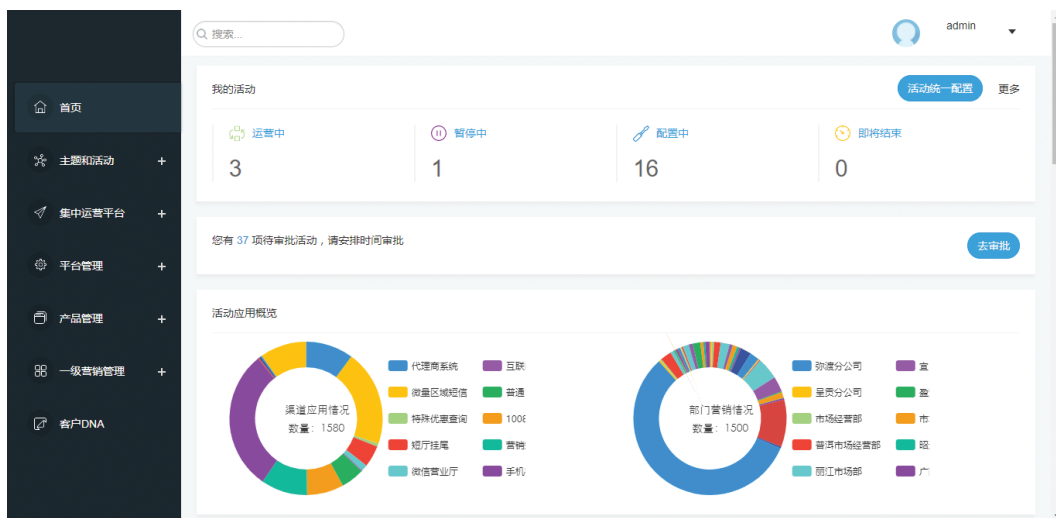
**Customer:** China Mobile’s Yunnan subsidiary

**End User:** China Mobile Yunnan subsidiary’s subscribers

**Our Data-Driven Operation Services:** We have built a data-driven operation platform for China Mobile Yunnan subsidiary using “Smart Operations” platform product from our operations product line, which is integrated with China Mobile Yunnan subsidiary’s big data platform. We have been providing data-driven operation services through this platform, including, among others, technical support, sales channel management and upgrade and marketing campaign management and optimization, to provide more personalized product and service recommendations to end users.

**Results of Data-Driven Operation Services:** With our data-driven operation services, China Mobile’s Yunnan subsidiary is able to conduct precise marketing through its online and offline sales channels to, on the one hand, provide personalized product and service recommendations to end users and on the other hand, adjust products and services’ target end user groups in real-time based on user feedbacks, ultimately increasing its sales, operating efficiency, market share and customer satisfaction.

### Screenshot of the Data-Driven Operation Platform’s User Interface:



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### Case study three:

**Customer:** China Unicom’s Tianjin branch

**End User:** China Unicom Tianjin branch’s subscribers

**Our Data-Driven Operation Services:** We have built a data-driven operations platform for China Unicom’s Tianjin branch using our “Smart Info” platform product from our operations product line, which is integrated with China Unicom Tianjin branch’s big data decision center. We provide data-driven operation services through this platform, primarily including WeChat Store basic inquiry, payment and processing services, matrix management of multiple WeChat official accounts, message template publication, marketing event management, data analysis and operational support. These services are designed to increase the WeChat official accounts’ number of subscribers, subscriber activity level and number of transactions, making WeChat a major online sales channel of China Unicom Tianjin branch.

**Results of Data-Driven Operation Services:** Our data-driven operation services has increased China Unicom Tianjin branch’s number of new subscribers and transaction volume. For example, after using our data-driven operation services, China Unicom Tianjin branch’s WeChat official accounts’ number of new subscribers in the fourth quarter of 2017 increased by 180% compared to the same period in 2016.

### Screenshot of the Data-Driven Operation Platform’s User Interface:



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### Others

We also derive revenue from (i) the procurement of third-party hardware and software to be integrated into the software systems deploying our products for some of our projects, (ii) system integration services, (iii) business consulting services, and (iv) corporate trainings. In 2015, 2016, 2017 and the three months ended March 31, 2018, other revenue amounted to RMB260.5 million, RMB312.5 million, RMB241.7 million and RMB34.0 million, respectively, accounting for 5.5%, 6.4%, 4.9% and 3.3% of our revenue from continuing operations for the respective periods.

### *Network security business*

During the Track Record Period, our results from continuing operations also included results of the Network Security Business. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, in order to accommodate our customers’ project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We recognized the contract prices of such project development contracts as revenue for the relevant periods based on their percentage of completion, and recorded the same amounts as cost of sales. In consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement, such as contract management, customer relationship management and liaison, we charged AsiaInfo Chengdu service fees which amounted to 2% of the Network Security Transitional Arrangement revenue recognized for the relevant periods, which were offset against cost of sales. We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018. However, some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing.

See “Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement” and “Financial Information—Description of Major Components of Our Results of Operations—Continuing Operation” for more details.

### *Other miscellaneous services*

#### *Procurement of third-party hardware and software*

The systems deploying our software products typically also use a variety of third-party hardware (such as servers) and software (such as database and middleware software). These third-party hardware and software are primarily sourced by our customers, and in a few cases, by us. For projects that we are responsible for sourcing third-party hardware and software, we purchase these hardware and software from third-party suppliers in accordance with our customers’ requirements and specifications. We enter into supply agreements with third-party hardware and software suppliers against back-to-back orders from our customers. These supply agreements, typically with a contract term of one year, provide for the third-party hardware or software to be provided, the contract price and payment terms, among others. The third-party hardware and software suppliers generally grant us credit terms of 90-180 days. See “—Our Suppliers—Third-party hardware and software suppliers” for more details.

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### *Business consulting services*

We provide comprehensive business consulting services. In the process of providing business consulting services, we are able to accurately assessing the customer’s medium- to long-term business trends, business challenges and specific business needs, which have allowed us to promote products and services that are best aligned with their growth strategies when appropriate. We have recently established a new business division dedicated to the provision of business consulting services.

We provide business consulting services pursuant to consulting service agreements we enter into with telecom operators and large enterprises, the term of which generally ranges from two months to one year. The contract price for our consulting service agreements is typically a fixed amount based on the estimated costs to provide the business consulting services, calculated at the day or hourly rates of the relevant business consulting personnel. We generally require a deposit upon signing the project development contracts, with the remaining contract price due upon completion of the project.

### PROJECT DEVELOPMENT PROCESS

We deliver our products and services as well as our data-driven operations services through the on-premise, project-based delivery model, and maintain a dedicated workforce comprised of:

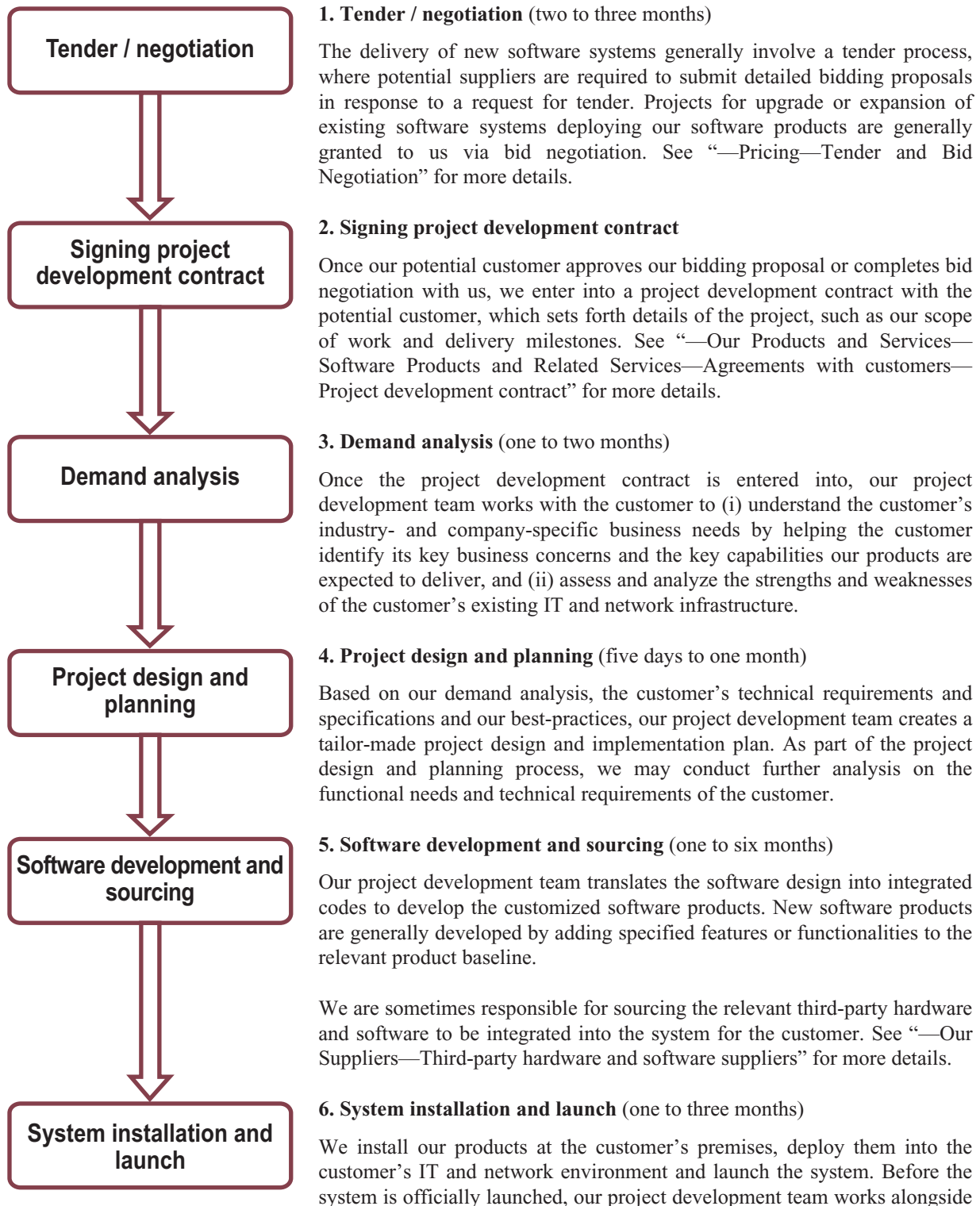
- ***Business divisions.*** We maintain dedicated business divisions targeting different customer groups—China Mobile, China Unicom, China Telecom, cable and media service providers and other enterprise customers. Each business division comprises its own R&D, sales, project delivery, quality assurance and operation and maintenance personnel with extensive experience in software and IT, and is responsible for the design, development and delivery of products and services for its target customer groups. We have recently established two new business divisions dedicated to the provision of business consulting services and data-driven operation services, respectively.
- ***Project development teams.*** At the beginning of the project development process, a dedicated project development team is formed within the relevant business division, which typically includes a project manager and a specific number of R&D, sales, project delivery and quality assurance personnel. The composition of the project development team is tailored to the requirements of the customer and complexity of the project. The project development team works closely with the customer throughout the project development process to develop a detailed project design outlining project requirements and identifying a comprehensive set of scenarios that will ensure a successful delivery.
- ***Operation and maintenance teams.*** Once we are engaged by the customer to provide operation and maintenance services for the systems deploying our products after system launch, a dedicated operation and maintenance team is assembled to provide operation and maintenance support around the clock.

Throughout the project development process, our dedicated project development and operation and maintenance teams are supported by our R&D, pre-sales consulting, quality assurance and other in-house teams, which provide core capabilities to ensure successful delivery of the projects. We have adopted stringent quality assurance processes and procedures throughout the project development lifecycle to ensure the quality, reliability and security of our software products and services. See “—Sales, Marketing and Our Customers—Pre-sales services” and “—Our Technology, Research and Development—Quality Assurance” for more details.

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### Project Development Process for Software Products and Related Services

The project development process for our software products and related services varies in length, typically ranging from six months to two years, depending on the size, complexity and customer requirements and specifications provided in the project development contract, and involves the following key stages:

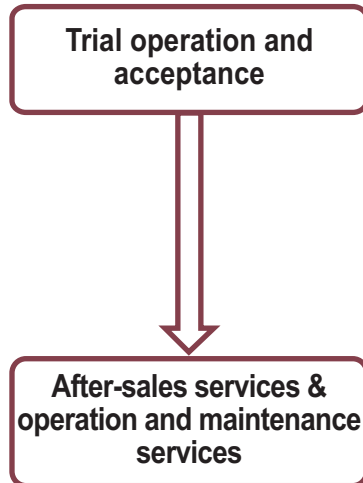


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our customer to conduct user acceptance tests to make sure the installed system can handle required tasks in real-world scenarios according to specifications. See “—Our Technology, Research and Development—Quality Assurance” for more details.



### 7. Trial operation and acceptance (three to six months)

After the system is launched, we coordinate with the customer to conduct the system’s initial acceptance. After the initial acceptance is completed, the project enters into the trial operation period typically ranging from three to six months, during which period we focus on resolving issues discovered during initial acceptance and continue to enhance and optimize the system. Upon the expiration of the trial operation period, the customer or a third-party acceptance agency appointed by the customer conduct final acceptance of the system.

### 8. After-Sales Services (typically one year) and Operation and Maintenance Services (ongoing)

We provide a range of after-sales services to our customers, including (i) project training, and (ii) product warranties. See “—Warranties and After-Sales Services” for more details.

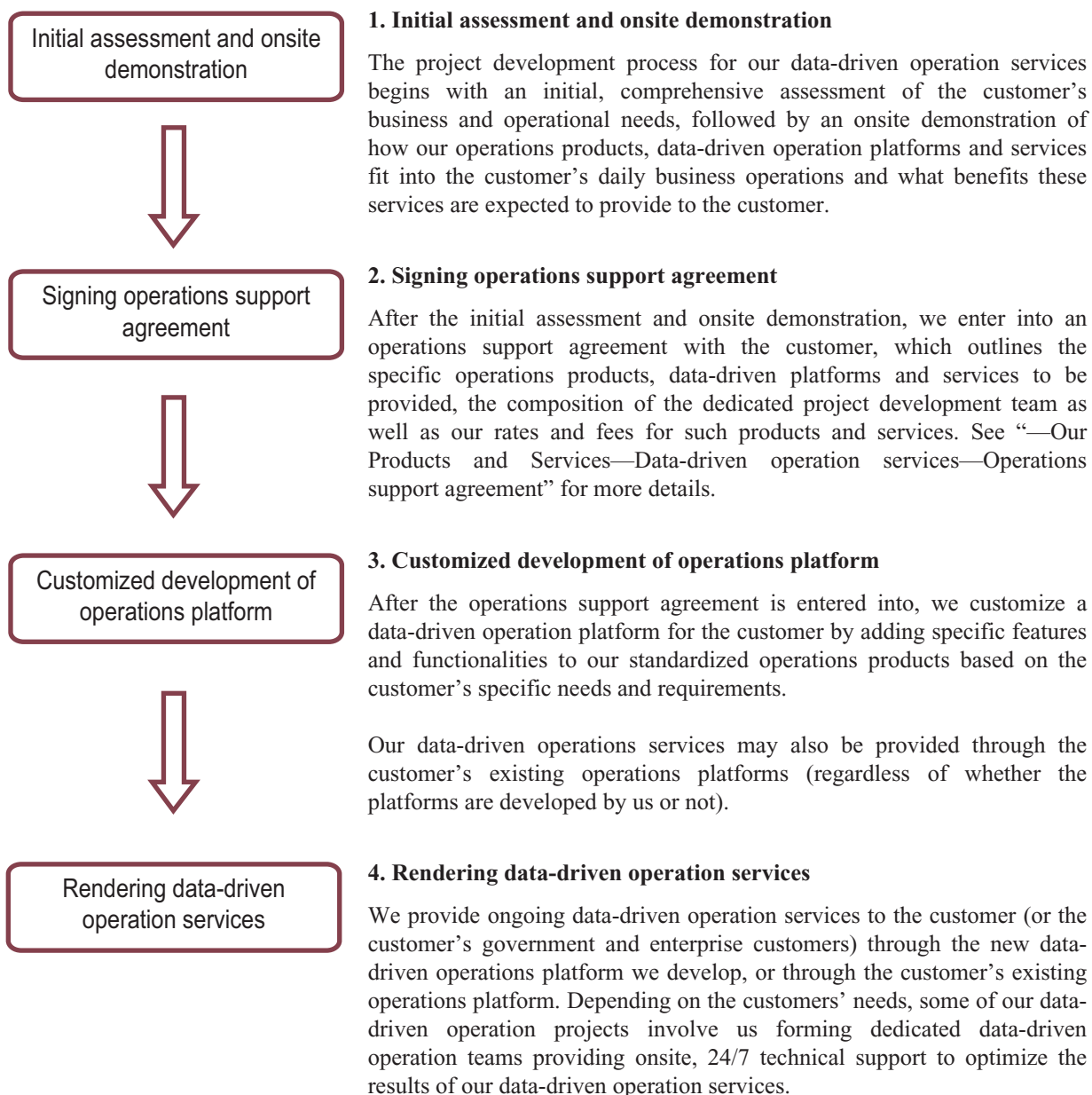
In addition to product warranties, once a system is implemented, we are usually engaged by the customer to provide comprehensive ongoing operations and maintenance services pursuant a separate operations and maintenance service agreement. See “—Our Products and Services—Software Products and Related Services—Operation and maintenance services” for more details.



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### Project Development Process for Data-Driven Operation Services

The project development process for our data-driven operation services typically ranges between 15 days to six months, depending on the size, complexity of the project and customer requirements and specifications, and typically involve the following key stages:



## SALES, MARKETING AND OUR CUSTOMERS

### Our Sales and Marketing Activities

#### Our sales force

We primarily acquire customers through our in-house sales force. We have sales and marketing teams and regional offices at our key customers’ locations to directly interact with our existing and prospective customers to promote our products and services and establish long-term, stable business

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relationship, identify and gain new business from prospective customers and initiate brand building and other company-level marketing efforts to increase market awareness of our brand, products and services. See “—Project Development Process—Project Development Process for Our Software Products and Related Services” for more details.

### Pre-sales services

Our selling cycle typically begins with the generation of a sales lead through our sales efforts or word-of-mouth referrals. In addition to proactively seeking new customers, our sales and solution consulting teams maintain ongoing dialogs with our existing customers to explore additional cooperation opportunities. As part of our pre-sales services, our sales and solution consulting teams work together to provide comprehensive solution consulting services. These services include assessing the customers’ business needs, operational challenges and IT system capabilities, helping them formulate business plans, growth strategies and tailored IT solutions and demonstrating the advantages of our products and services. These comprehensive pre-sales efforts have given us significant insights into our customers’ IT infrastructure construction and decision making processes with respect to our products and services, and have enabled us to keep pace with customers’ evolving demands and specifications and direct our R&D efforts and product roadmap accordingly, securing more and higher-value engagements as their businesses grow and the competitive landscape evolves.

### Our marketing initiatives

Our strong brand recognition has been an important driving force for our sales. We have been promoting our products and services and increase our brand awareness among existing and potential customers through the following initiatives:

- sponsoring and participating in various industry events, exhibitions, trade shows, seminars and conferences, such as the Mobile World Congress;
- utilizing the online social media to promote our products and services, such as through Sina Finance and our WeChat official account;
- display of our products and demonstration of our services to visitors and business partners at our showrooms and through our website; and
- participating in various training events held by our customers, such as senior executive trainings and technical trainings to facilitate interactions with our customers.

### Our Customers

Our customers mainly comprise telecom operators. As of March 31, 2018, we had 317 customers, including 199 telecom operator customers and 118 enterprise customers, which we negotiate and enter into contracts with individually and directly:

- (i) one of the major telecom operators’ headquarters, 31 provincial companies, 23 municipal companies and 34 specialized companies, which contributed an aggregate of 53.2%, 52.6%, 55.3% and 53.9% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, relationship since 1999;
- (ii) one of the major telecom operators’ headquarters, 31 provincial companies, 1 municipal company and 14 specialized companies, which contributed an aggregate of 26.3%, 25.0%, 23.7% and 25.2% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, relationship since 1999;

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- (iii) one of the major telecom operators’ headquarters, 38 provincial companies, 3 municipal companies and 11 specialized companies, which contributed an aggregate of 17.6%, 18.1%, 17.1% and 17.8% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, relationship since 1995;
- (iv) one of the major telecom operators’ headquarters, three provincial companies and five municipal companies, which contributed an aggregate of 0.1%, 0.1%, 0.2% and 0.1% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, relationship since 2015;
- (v) 31 large enterprise customers, including 27 cable and media service providers and 4 large enterprises in the postal and financial service sectors, which contributed an aggregate of 1.1%, 1.8%, 2.3% and 2.4% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, relationship since 2010; and
- (vi) 87 small- to medium-sized enterprise customers, including 20 MVNOs and 67 enterprises in other selected industries, which contributed an aggregate of 1.7%, 2.5%, 1.4% and 0.7% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, relationship since 2013.

We have established long-standing, strategic relationship with our customers, as evidenced by:

- **Customer retention rate.** We maintain high customer retention rate, which was higher than 90% for all customers and 99% for our telecom operator and large enterprise customers in each of 2015, 2016, 2017 and the three months ended March 31, 2018; and
- **Framework cooperation agreements.** We have entered into long-term framework cooperation agreements with a number of our telecom operator and large enterprise customers. These framework agreements reaffirm our strategic partnership with the respective customers in the R&D of BSS/OSS systems and designate us as their preferred provider of these systems. The terms of these strategic framework agreements generally range from one to three years and can be renewed upon mutual agreement.

In 2015, 2016, 2017 and the three months ended March 31, 2018, revenue from our five largest customers, with whom we negotiate and enter into contracts with individually and directly, which included China Mobile’s provincial subsidiaries and China Unicom and China Telecom’s headquarters, contributed an aggregate of 24.1%, 24.9%, 20.1% and 21.8% of our total revenue from continuing operations, respectively. Revenue from our largest customer contributed 6.7%, 6.6%, 4.6% and 5.7% of our total revenue from continuing operations during the same periods, respectively. All of our top five customers during the Track Record Period were Independent Third Parties. None of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the [REDACTED]) had any interest in any of our five largest customers during the Track Record Period.

We are exposed to risks related to our dependence on telecom operators. See “Risk Factors—Risks Relating to Our Business and Industry—Our dependence on Chinese telecom operators subjects us to events that may cause material fluctuations or declines in our revenues” for more details.

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### PRICING

#### Our Pricing Policies

The prices of our software products and services are determined taking into consideration a number of factors, including, as applicable: estimated project execution and delivery costs, estimated procurement costs for third-party hardware and software products (if applicable), complexity of the projects and other factors such as target customer groups, customers’ acceptable price ranges and prices of competing products and services. For projects that involve a tender process, we also take into consideration our competitors’ prices in order to succeed in the tender process.

During the Track Record Period and up to the Latest Practicable Date, there has not been any material fluctuation in the prices of our products and services.

#### Tender and Bid Negotiation

Our contracts with our customers sometimes involve a tender process. We take into consideration our competitors’ prices in pricing these contracts in order to succeed in the tender process. The prices of our remaining contracts with our customers are determined based on a bid negotiation between us and our customers.

#### Tender

Contracts for the delivery of new software systems generally involve a tender process, where potential suppliers are required to submit detailed bidding proposals in response to a tender offer. The tender offer typically sets out the technical requirements and specifications of the project, as well as other details such as payment terms and delivery deadlines.

Once we receive the tender offer, we conduct research and analysis of such project. Various factors, including but not limited to budget, pricing, project complexity and specifications, payment terms, timetable, competitive landscape and requirements on bidders such as industry experience and track record will be taken into account when we analyze the feasibility of the project.

After feasibility studies are completed, our management will consider whether a detailed bidding proposal shall be prepared for such potential project based on the results of the feasibility studies. If we decide to proceed with the tender, we will formulate a preliminary project design plan, based on which the detailed bidding proposal will be prepared and submitted.

It generally takes two to three months from the opening of submission of tender bids and the announcement of tender results. In 2015, 2016, 2017 and the three months ended March 31, 2018, approximately 20%, 23%, 25% and 25% of our contracts with our customers went through a tender process, and the success rate of our tender bids was approximately 96%, 94%, 96% and 94%, respectively.

#### Bid negotiation

In general, if the telecom operators or enterprises’ existing software systems deploy our software products, the relevant system upgrades or expansion projects will be granted to us by bid negotiation instead of tender. In addition, system operation and maintenance projects related to software systems deploying our products will typically be awarded to us by bid negotiation. The bid

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negotiation process generally takes two to three months. Whether a project can be granted through tender or bid negotiation is ultimately determined by our customers case by case in accordance with the relevant laws and regulations and their internal policies.

### WARRANTIES AND AFTER-SALES SERVICES

#### Product Warranties

We typically provide 12-month product warranties for our software products, which are generally limited to product repair and maintenance. As part of our after-sales services, we offer free upgrades to new versions of our software products, such as new versions that address compatibility or security issues. We also operate a dedicated customer service hotline that provides technical support to our customers and answers to customer queries.

The repair and maintenance of third-party hardware (which generally have one- to two-year product warranties) and software (which generally have 12-month product warranties) that are procured by us and integrated into our customers’ software systems are handled by the relevant third-party suppliers, with the repair and maintenance costs borne by these suppliers.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product liability claims from our customers. As a result, we did not record any provision for product warranty during the Track Record Period.

#### Product Training

Once a software system is launched, we provide a range of professional training related to system operation and maintenance on-site or at our training centers in Beijing or Nanjing to the customer’s employees. These training courses primarily cover the technologies, functionalities, day-to-day operations and troubleshooting techniques, which are designed to ensure the proper function of the implemented systems.

### OUR TECHNOLOGY, RESEARCH AND DEVELOPMENT

We have established a product and technology committee, which is responsible for formulating our technology strategies and direct our R&D activities accordingly. The key responsibilities of this committee also include: reviewing technology development strategies, approving product and R&D projects establishment applications, managing product R&D projects’ schedule and quality, promoting technical standards and managing the qualification and competence of technical talents.

Our technology strategy is to focus on providing technologically-advanced products that have business value for specific sectors primarily through in-house R&D, while integrating advanced third-party technologies. We have always believed that technology not only serves business operations, but also enables innovative business architecture and models. The key to our technology strategy is to make technology easier, so that more industrial customers have access to advanced IT technologies more conveniently and at lower costs, and in turn can be more focused on their business operations. As such, we have established a three-tier “platform + application + operations” technology structure, which has served as our competitive differentiator as well as a key driver that keeps us at the forefront of the industry.

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Our R&D activities are carried out under the guidance of our technology strategies. We have focused our R&D efforts on continuous innovation based on advanced technologies and driven by customer demands, and conduct substantially all of our R&D activities in-house. Our R&D activities primarily include: product planning according to customer needs, R&D on new products, expanding and enhancing the capabilities of existing products, improving the quality of our delivering services, quality assurance and increasing operating efficiency.

We incurred research and development expenses of RMB629.6 million, RMB636.6 million, RMB430.2 million and RMB87.8 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, accounting for 13.2%, 13.1%, 8.7% and 8.6% of our total revenue from continuing operations, respectively. We expect to continue to incur research and development expenses in the areas of data-driven operation services, IoT, intelligent networks, as well as other areas as our R&D strategy evolves.

The following table set forth a summary of our major R&D events and developments:

| <u>Year</u> | <u>Major events and developments</u>  |
|-------------|---|
| 1999-2005   | Consecutively launched data billing product AIOBS, convergent billing product AICBS, integrated network management system AISerBase, e-mail system AIMC, business analysis and decision-making system AIOmniVision and other products   |
| 2003        | Launched APP frame infrastructure platform, our in-house developed J2EE platform with SOA structure, which replaces the traditional C/S structure   |
| 2003        | Joined the TMF Group  |
| 2004        | Launched the Open product series for large-scale BSS/OSS systems  |
| 2010        | Started to launch new versions of BSS/OSS system software that comply with telecom operators' new generation of technical standards   |
| 2014        | Introduced the concept of data asset for the first time and launched the industry-leading data asset management platform DACP; completed the first nationwide centralized BSS system in the industry  |
| 2015        | Launched AIF infrastructure platform, a cloud-based, universal PaaS platform that can be rolled out among all of our customers that enable them to develop, run and manage applications; joined the international open data platform ODPi   |
| 2016        | Launched cloud-based big data management platform OCDP  |
| 2016        | Launched the first financial computing platform that complies with IFRS15   |
| 2017        | Launched brand-new CRM product, smart terminal application development framework, smart customer service product, billing product, smart testing management platform product, providing telecom operators and enterprise customers with BSS/OSS products that featured leading technologies and cover customers' entire business operations process |
| 2017        | Launched a new suite of big data products, including five main products: AI, big data, visual recognition, intelligence data labeling system and intelligent operating system   |
| 2017        | Actively expand our IoT business, providing customers with industry application solutions such as smart community, smart firefighting, smart travel and Internet of Vehicles  |



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As a result of our R&D efforts, we have received numerous industry awards and recognitions. See “—Awards and Recognitions” for more details. Our R&D capabilities are also evidenced by our broad portfolio of intellectual property rights. See “—Intellectual Property” for more details.

### Quality Assurance

We strive to ensure the quality, reliability and security of our products and services. We have established a quality assurance system at the company level pursuant to ISO 9001 quality management system standards, ISO 27001 security management standards and CMMI Level 5 software process methodologies and based on our industry experience and best practices. Our quality assurance system primarily involves, among other things, software development process management, R&D qualitative management, deployment management, tests and regular internal quality audits.

We have received international certifications for our quality assurance systems and security management systems. The following table sets forth a summary of certifications that we have received and major standards that we have satisfied:

| <u>Certification/Standards</u> | <u>Description</u>   |
|--------------------------------|--|
| ISO 9001:2015                  | Certification for our quality management system in connection with (i) the design, development and maintenance of application software; and (ii) computer information system integration design, development and service |
| ISO 27001                      | Internationally accepted standards for information security management systems, which demonstrates that we have established a comprehensive information security management system                                       |
| CMMI Level 5                   | Internationally accepted Software Capability Maturity Model for evaluation of software development capabilities, CMMI Level 5 represents the highest level   |

### Our R&D Team

As of March 31, 2018, we had a dedicated R&D team consisting of 3,648 personnel, representing approximately 32.5% of our total staff, including our centralized R&D team at our headquarters (accounting for approximately 1/3 of our total R&D personnel) and R&D teams at business-division level focusing on specific projects. Our R&D staff are located at our headquarters and regional offices spanning 28 provinces, municipalities and autonomous regions, including Beijing, Nanjing, Hangzhou, Changsha, Guangzhou and Chengdu. As of the same date, approximately 92.7% of our R&D staff held bachelors’ degree or above and 55.5% had over five years’ experience in the software industry.

Our centralized R&D team is based at our headquarters’ R&D center, which focuses on centralized R&D of core products that can be shared among our business divisions, forward looking R&D of new technologies that align with our strategies, as well as quality management and quality assurance during the R&D process.

Our centralized R&D efforts are complemented by R&D initiatives for specific projects at the business division level. Each of our business divisions is also equipped with its own R&D personnel, who are responsible for developing products catering to customer needs for specific projects using the

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key products, universal platforms and tools centrally developed at our headquarters, and supporting the delivery of products they develop in the context of specific projects.

### INTELLECTUAL PROPERTY

Our success depends, in part, on our ability to maintain and protect our proprietary technology and to conduct our business without infringing the proprietary rights of others. As of the Latest Practicable Date, we held 544 software copyright registrations in the PRC. We owned 249 registered trademarks in the PRC, Hong Kong, the United States, Singapore, Malaysia, Thailand, Japan, Australia and the European Union and had applied for 168 trademark registration in the PRC and Hong Kong. In addition, we owned 35 registered patents in the PRC and the United States, and had applied for the registration of 25 patents in the PRC. As of the same date, we owned 103 domain names.

We rely primarily on a combination of copyright, trademark, patent, domain name and trade secret protection laws as well as confidentiality and non-compete agreements and provisions with our employees, dispatched workers and other business partners to safeguard our intellectual property. We cannot assure you that the protection afforded for our intellectual property will be adequate.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any infringement of our intellectual property rights having a material adverse effect on our business; nor had we subject to any material intellectual property rights claims by third parties. Third parties may appropriate our intellectual property rights without our knowledge or consent. Unauthorized use of our intellectual property rights by third parties, and the expenses incurred in protecting our intellectual property rights may adversely affect our business. We may also be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third-parties. See “Risk Factors—Risks Relating to Our Business and Industry—Our intellectual proprietary rights may be inadequately protected and there is a risk of poor enforcement of intellectual property rights in China” and “—We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations” for more details.

### OUR SUPPLIERS

Our suppliers include outsourcing service providers and third-party hardware and software suppliers. In 2015, 2016, 2017 and the three months ended March 31, 2018, purchases from our five largest suppliers in aggregate accounted for 7.3%, 21.5%, 11.6% and 7.3% of our cost of sales, respectively, and purchases from our largest supplier accounted for 2.4%, 10.7%, 3.7% and 3.7% of our cost of sales, respectively.

Other than AsiaInfo Chengdu, which was one of our outsourcing service providers during the Track Record Period, all of our other top five suppliers during the Track Record Period were Independent Third Parties. See “Connected Transactions—Partially Exempt Continuing Connected Transactions—1. Technological Services Provided by AsiaInfo Chengdu to Our Group” and “—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement” for more details. Other than AsiaInfo Chengdu, none of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the [REDACTED]) had any interest in any of our five largest suppliers during the Track Record Period.

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### Outsourcing Service Providers

In line with industry practice, we outsource various non-core IT services at different stages of our project development process to our outsourcing service providers, such as certain aspects of our operations and maintenance services which do not require extensive software and IT expertise. Such practices enable us to focus on key stages of the project development lifecycle, such as system design, system planning and software development. Our outsourcing service providers are providers of professional IT services with the requisite qualifications. We enter into technical support agreements or project outsourcing service agreements with our outsourcing service providers or place orders with them under long-term framework agreements on a project by project basis, which provide for, among others, the types of IT services to be provided, the contract price and the credit and payment terms. Our outsourcing service providers generally grant us a credit term of 30 days. Our outsourcing service providers are responsible for complying with our quality standards for the IT services provided and to provide maintenance and warranty to our customers.

In 2015, 2016 and 2017 and the three months ended March 31, 2018, we engaged 45, 47, 58 and 16 outsourcing service providers, respectively. We have been working with our outsourcing service providers for an average of approximately 3 years, and believe that we have a good working relationship with our outsourcing service providers. In 2015, 2016, 2017 and the three months ended March 31, 2018, purchases of outsourced services from outsourcing service providers accounted for 7.5%, 11.3%, 8.9% and 8.1% of our cost of sales, respectively.

We employ various criteria in selecting our outsourcing service providers, including industry experience and track record, technical expertise, service quality and quality control effectiveness, prices, financial condition and ability to meet our customers’ delivery timeline. Each potential outsourcing service provider must undergo a rigorous process, including background checks, interviews and site visits, which typically takes one month to complete, in order to qualify as our designated outsourcing service provider.

We closely monitor and evaluate the performance of our outsourcing service providers. We conduct annual inspections to re-evaluate the overall performance of our outsourcing service providers and may terminate our business relationship with those failing our annual inspections. The evaluations are based on several factors, including the outsourcing service providers’ technology and industry expertise, quality of services, quality assurance procedures as well as their compliance with our policies and guidelines.

### Third-Party Hardware and Software Suppliers

We are responsible for sourcing third-party hardware and software for some of our projects. For these projects, we purchase hardware and software from third-party suppliers in accordance with our customers’ requirements and specifications. We enter into supply agreements with third-party hardware and software suppliers against back-to-back orders from our customers. These supply agreements, typically with a contract term of one year, provide for the third-party hardware or software to be provided, the contract price and payment terms, among others. The third-party hardware and software suppliers generally grant us credit terms of 90 to 180 days. See “—Our Products and Services—Others—Other Miscellaneous Services—Procurement of third-party hardware and software” for more details.

As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had 176, 91, 98 and 104 hardware and software suppliers, respectively, all of which were Independent Third Parties. We have

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been working with our hardware and software suppliers for an average of approximately 3 years. In 2015, 2016, 2017 and the three months ended March 31, 2018, our purchases from third-party hardware and software suppliers accounted for 4.0%, 5.4%, 3.5% and 1.2% of our cost of sales, respectively.

We seek third-party hardware and software suppliers with sound industry expertise, track record and operating and financial conditions. We source third-party hardware and software exclusively from designated suppliers who have passed our background checks as well as ongoing performance evaluations.

We believe we have sufficient alternative suppliers for third-party hardware and software that can provide us with substitutes of comparable quality and prices. During the Track Record Period, we had not encountered any disruption to our business as a result of shortage of third-party hardware and software.

### INVENTORY MANAGEMENT

Our inventory includes third-party hardware and software products we procure for some of our projects, which will be integrated into the software systems deploying our products. For the projects where we are responsible for procuring third-party hardware and software, we procure these hardware and software from third-party suppliers against back-to-back orders from our customers according to their requirements and specifications. See “—Our Suppliers—Third-Party Hardware and Software Suppliers” for more details.

### QUALIFICATIONS, AWARDS AND RECOGNITIONS

The following table sets forth details of our major certificates and qualifications:

| <u>Certificate/permit</u>  | <u>Issuing Entity</u>  | <u>Date of Issuance</u> | <u>Date of Expiration</u> |
|--|--|-------------------------|---------------------------|
| Computer Information System Integration Qualification Certificate (Large Scale Level 1) held by AsiaInfo China           | China Electronics Information Industry Federation Information System Integration Qualifications Office | December 13, 2017       | December 12, 2018         |
| Computer Information System Integration Qualification Certificate (Level 1) (信息系統集成及服務一級資質) held by AsiaInfo China       | China Electronics Information Industry Federation  | December 21, 2015       | December 20, 2019         |
| Computer Information System Integration Qualification Certificate (Level 1) held by AsiaInfo Nanjing                     | China Electronics Information Industry Federation  | October 8, 2015         | October 7, 2019           |
| Computer Information System Integration Qualification Operation Maintenance Certificate (Level 1) held by AsiaInfo China | China Electronics Information Industry Federation  | July 1, 2016            | June 30, 2020             |

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| <u>Certificate/permit</u>   | <u>Issuing Entity</u>  | <u>Date of Issuance</u> | <u>Date of Expiration</u> |
|---|--|-------------------------|---------------------------|
| High and New Technology Enterprise Certificate held by AsiaInfo China   | Beijing Municipal Science & Technology Commission, Beijing Municipal Finance Bureau, Beijing Municipal National Taxation Bureau and Beijing Municipal Local Taxation Bureau        | October 25, 2017        | October 24, 2020          |
| High and New Technology Enterprise Certificate held by AsiaInfo Nanjing | Jiangsu Provincial Science & Technology Department, Jiangsu Provincial Finance Department, Jiangsu Provincial National Taxation Bureau and Jiangsu Municipal Local Taxation Bureau | December 7, 2017        | December 6, 2020          |
| Software Enterprise Certificate held by AsiaInfo Nanjing                | Jiangsu Software Industry Association  | July 27, 2017           | July 26, 2018             |

The following table sets forth our recent awards and recognitions:

| <u>Year</u> | <u>Awards and Recognitions</u>   | <u>Issuing Authorities</u>   |
|-------------|--|--|
| 2018        | 2018 Top 50 Most Innovative Enterprises in China’s Information Technology Service Industry                       | China Information Technology Industry Federation   |
| 2018        | 2018 Top 50 Enterprises for Social Contributions for China’s Electronic Information Industry                     | China Information Technology Industry Federation   |
| 2018        | 2017 China’s Most Influential Software and Information Service Enterprise  | China Software Industry Association  |
| 2018        | Our CEO, Mr. GAO Nianshu, received the Outstanding Entrepreneur in China’s Electronic Information Industry Award | China Information Technology Industry Federation   |
| 2018        | Our CEO, Mr. GAO Nianshu, received the 2017 Outstanding Entrepreneur in China’s Software Industry Award          | China Software Industry Association  |
| 2017        | 2017 Top 50 Most Innovative Enterprises in China’s Digital Information Industry                                  | China Information Technology Industry Federation   |
| 2017        | 2017 Top 100 Most Competitive Chinese Software and Information Technology Services Providers                     | China Information Technology Industry Federation   |
| 2017        | No. 19 of the 16 <sup>th</sup> Top 100 Income of China’s Software Enterprises                                    | Ministry of Industry and Information Technology  |
| 2017        | Most Valuable Brand of China’s Software and Information Service Industry   | China’s Software and Information Service Network/ China’s Brand Research Unit of Capital University of Economics and Business’s          |
| 2017        | AIF received the 2017 Telecom Sector Outstanding Solution Award  | China Information Technology Service Industry Alliance   |
| 2017        | Strongest Investment Potential Software Enterprises  | China Software Industry Association  |
| 2017        | Science and Technology Contribution Award for China’s Information Technology Service Industry                    | China’s Information Technology Service Industry Alliance / Ministry of Industry and Information’s Software and Integrated Circuit Center |

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| <b>Year</b> | <b>Awards and Recognitions</b>   | <b>Issuing Authorities</b>   |
|-------------|--|--|
| 2017        | Chinese Software and Information Services Providers AAA Credit Ratings                                       | China Software Industry Association  |
| 2016        | No. 25 of the 15 <sup>th</sup> Top 100 Income of China’s Software Enterprises                                | Ministry of Industry and Information Technology  |
| 2016        | Top 100 Enterprise for Comprehensive Competitiveness of China’s Software and Information Technology Services | China’s Information Technology Industry Federation / China’s Software Industry Association                 |
| 2015        | New Innovation Award   | Beijing Communications and Information Association   |
| 2015        | 2015 Top 100 Zhongguancun High Growth Enterprises  | Beijing Zhongguancun High-tech Enterprise Association / 2015 Zhongguancun High Growth Enterprise Committee |
| 2015        | No. 24 of the 14 <sup>th</sup> Top 100 Income of China’s Software Enterprises                                | Ministry of Industry and Information Technology  |

## **COMPETITION**

The telecom and non-telecom software product and related service markets in China are competitive and are characterized by rapid technological changes, frequent introduction of new products and fast changing customer demands and rapidly evolving industry standards. Our major competitors include Huawei (limited to its software business targeting telecom operators and large enterprises), Zhongxing Telecommunication (limited to its software business targeting telecom operators and large enterprises), Shenzhen Tianyuan DIC Information Technology Co., Ltd. and Business-intelligence of Oriental Nations Corporation Ltd.

The most significant factors that affect our competitiveness are:

- the performance, quality, reliability and cost-effectiveness of our products and services relative to those of our competitors’;
- our ability to supply products and services, on a timely basis and at competitive prices;
- our ability to accurately identify and respond to emerging technological trends and demand for product features and performance characteristics;
- our ability to successful and timely develop new products and services;
- our ability to retain and incentivize our senior management team and qualified personnel;
- our ability to develop and maintain customer and supplier relationships; and
- our service capabilities.

We believe we compete favorably on the basis of these factors because we have accumulated a deep understanding of China’s telecom and non-telecom software product and related service markets through our extensive industry experience and have developed a comprehensive suite of products and services tailored to the unique characteristics of these customers. However, our existing and potential competitors may have greater financial, technical, manufacturing, marketing, sales and other resources than we do. We also compete with emerging start-up companies which may be able to innovate and provide products and services faster than we can. We cannot assure you that we will be able to



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compete successfully against our current or future competitors. See “Risk Factors—Risks Relating to Our Business and Industry—The markets in which we operate are competitive, and we cannot assure you that we will be able to compete successfully against our competitors, grow at a rate comparable to our growth rate in the past or successfully maintain or enhance the awareness of our brand” for more details.

### EMPLOYEES

As of March 31, 2018, we employed 11,221 full-time employees, all of which were based in the PRC. The following table provides a breakdown of our employees by function as of that date:

| <u>Functions</u>                                    | <u>Number of Employees</u> |
|---|----------------------------|
| R&D .....   | 3,648                      |
| Project deployment, operation and maintenance ..... | 6,698                      |
| Sales and marketing .....                           | 341                        |
| Data-driven operations .....                        | 110                        |
| Operations management and IT services .....         | 112                        |
| General administration and others .....             | 312                        |
| <b>Total</b> .....                                  | <u>11,221</u>              |

We recruit primarily through job search websites, social media and employee referrals programs for our recruitment needs. Our employees typically enter into standard employment contracts with us. The remuneration packages for our employees include base salary, bonuses and allowances. We set performance targets for our employees based on their position and periodically review their performance. We provide orientation programs for new employees and continuous training to enhance our employees’ industry, technical and product knowledge, as well as their familiarity with industry quality standards and work safety standards.

As required by PRC laws and regulations, we participate in social insurance schemes operated by the relevant local government authorities and maintain mandatory pension contribution plans and medical and work-related injury insurance schemes for our employees. We also contribute to unemployment insurance plans as well as housing accumulation funds for our employees.

We believe that we maintain a good working relationship with our employees, and during the Track Record Period, we did not experience significant problems in our relationship with our employees or disruption to our operations.

As of March 31, 2018, we also engaged a small number of dispatched workers from independent third-party employment agencies to provide administrative, system operation and maintenance and other auxiliary work. These dispatched workers are employed by the relevant employment agencies. Pursuant to our labor-dispatching agreements with the employment agencies, the employment agencies are responsible for making social insurance and housing funds contributions for these dispatched workers and we are responsible for interviewing and training these dispatched workers. We had not experienced any business interruption due to such arrangements during the Track Record Period and up to the Latest Practicable Date, and we do not foresee any difficulty in finding any replacement employment agencies.

### PROPERTIES

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this [REDACTED] is

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exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all of our Group’s interests in land or buildings. This is because as of March 31, 2018, none of our properties had a carrying amount of 15% or more of our consolidated total assets.

### **Owned Properties**

As of the Latest Practicable Date, we owned two parcels of land with an aggregate land area of approximately 11,538 square meters. Our owned properties are primarily used as our R&D center and for administrative purposes. We have obtained the land use rights certificates for this parcel of land.

We owned one building with an aggregate gross floor area of approximately 36,335 square meters for our R&D center. We have obtained all the requisite certificates and permits for this building, including its ownership certificate.

### **Leased Properties**

We lease certain properties in China in connection with our business operations, with a total gross floor area of 75,500 square meters as of June 30, 2018. These properties mainly include premises for our regional offices and dormitories, all of which are leased from Independent Third Parties.

As of June 30, 2018, (i) we failed to register the lease agreements for 126 leases (with a gross floor area of 75,114 square meters, accounting for 99.5% of the total gross floor area we leased), primarily due to the relevant lessors’ failure to cooperate, which expose us to potential fines of up to RMB1,260,000, (ii) the lessors of 13 of our leased properties (with a gross floor area of 3,019 square meters, accounting for 4.0% of the total gross floor area we leased) failed to provide us with valid property ownership certificates or authorization from the property owners for the lessors to sub-lease such properties, which may render us unable to continue to use these properties, and (iii) 13 of our leased properties (with a gross floor area of 5,793 square meters, accounting for 7.7% of the total gross floor area we leased) are subject to registered mortgages, and we may be forced to vacate such properties in the event that the mortgagees foreclose such properties. See “Risk Factors—Risks Relating to Our Business and Industry—Defects related to certain of our leased properties may adversely affect our ability to use these properties” for more details.

Our Directors believe that the defective leased properties set out above are not crucial to, and will not have a material adverse effect on, our business, financial condition and results of operations primarily because (i) we do not rely on any of these properties for our business operations, (ii) there is sufficient supply of alternative properties and we can easily lease properties with valid title certificates in the event that we are no longer able to use any of the defective leased properties, (iii) in the event that we are forced to relocate from any of our leased premises, our headquarters and other regional offices can adequately support the functioning of our business operations and our employees, and (iv) as of June 30, 2018, no third party or government authorities had challenged our use of the defective leased properties. In addition, our Directors confirmed that they were not aware of any material potential safety hazards associated with these leased properties, and that the safety conditions of these properties were not negatively impacted by reasons of their defective titles. As such, we do not believe a contingency relocation plan is necessary.

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### INSURANCE

We maintain limited insurance coverage such as property insurance. We do not carry any business interruption insurance or product liability insurance, which we believe is consistent with industry practice in China. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any material insurance claims.

Our insurance premiums amounted to RMB0.1 million, RMB0.1 million, RMB0.1 million and RMB27 thousand in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively.

Our Directors confirmed that the insurance coverage for our operation was adequate and was in line with industry practice as of the Latest Practicable Date.

Our insurance coverage may not be sufficient to cover all potential losses related to our business and operations. See “Risk Factors—Risks Relating to Our Business and Industry—Our insurance coverage may not completely cover the risks related to our business and operations” for more details.

### LICENSES AND PERMITS

Our Directors and PRC Legal Advisor confirmed that, during the Track Record Period and as of the Latest Practicable Date, we have complied with all relevant PRC laws and regulations in all material aspects and has obtained all material licenses, approvals and permits from appropriate regulatory authorities for our business operations in China since the commencement of the Track Record Period. As of the Latest Practicable Date, these licenses, approvals and permits had not been revoked, canceled or otherwise expired.

Our PRC Legal Advisor has confirmed that we are not required to obtain or hold any mandatory industry-specific licenses, approvals or permits for our business operations in China.

### LEGAL PROCEEDINGS AND COMPLIANCE

We have been, and from time to time in the future may, become a party to various legal proceedings and claims that arise in the ordinary course of business, which include business disputes brought by our suppliers, customers or other business partners we cooperate with. In September 2015, Cong Xing Technology Co., Ltd. (從興技術有限公司) (“**Cong Xing**”) filed a claim against AsiaInfo China and 12 other defendants (eight of whom are currently our employees but none of whom is our Directors or senior management), alleging that the defendants collectively infringed upon its trade secret by using source codes for five software systems developed in the course of providing services to an independent third party telecom operator (the “**Telecom Operator**”). Cong Xing demanded the defendants to cease all use of the relevant source codes and claimed for economic losses in an aggregate amount of RMB100 million as well as reasonable costs of RMB2 million. This case is currently pending before the Beijing Intellectual Properties Court. As advised by King & Wood Mallesons, our PRC legal advisor representing us in this lawsuit, Cong Xing’s infringement claim lacks factual or legal basis and the litigation risk for the defendants to compensate Cong Xing is remote for the following reasons:

1. Cong Xing’s claim of sole ownership of the legal rights of the source codes for the referenced software systems has no factual basis, and Cong Xing’s right to sue is fundamentally flawed because, pursuant to the agreements between Cong Xing and the

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- Telecom Operator, (i) the intellectual property right of the source codes for four out of the five referenced software systems belong to the Telecom Operator but not to Cong Xing, and (ii) the intellectual property right of the source codes for the remaining software system is jointly owned by the Telecom Operator and Cong Xing; and
2. Cong Xing failed to provide any evidence in the course of legal proceedings to demonstrate that AsiaInfo China had accessed to, or had used, the source codes, and was therefore not able to prove that AsiaInfo China has conducted any infringement activity.

As such, our Directors are of the opinion that such infringement claim will not have a material adverse impact on us.

Save as disclosed above, we were not the subject of any ongoing litigation, arbitration, claims or proceeding which could potentially have a material and adverse effect on our business or results of operations. Our Directors are not involved in any actual or threatened material claims or litigations. However, future legal proceedings, disputes and claims may divert our management’s attention and result in costs and liabilities. See “Risk Factors—Risks Relating to Our Business and Industry—If we become a party to litigations, legal disputes or claims, such involvement may result in costs and liabilities” for more details.

We are subject to a wide variety of laws, rules and regulations in the ordinary course of our business operations. See “Regulatory Overview” for more details. As advised by our PRC Legal Advisor, other than as disclosed in this section and in the section headed “Risk Factors”, we are in compliance with all relevant PRC laws, rules and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

### **Social Insurance Contribution Shortfalls**

During the Track Record Period, due to misinterpretation of the relevant regulations and local practices, we have failed to make full social insurance contributions for our employees. See “Risk Factors—Risks Relating to Our Business and Industry—We may be subject to additional contributions of social insurance and late payments and fines imposed by relevant governmental authorities” for more details.

Our Directors are of the opinion that such social insurance contribution shortfalls will not have a material adverse impact on us for the following reasons: (i) each of our PRC subsidiaries with business operations have obtained confirmations from local social insurance authorities stating that no administrative penalty had been imposed and/or the relevant subsidiary was in compliance with the relevant laws and regulations, (ii) during the Track Record Period and as of the Latest Practicable Date, we had not received any notification from the relevant authorities requiring us to pay the shortfalls, nor had we been subject to any fines or administrative penalties with respect to such shortfalls, (iii) during the Track Record Period and as of the Latest Practicable Date, we had not received any major claim from our employees or involved in any major labor disputes in this regard, (iv) as advised by our PRC Legal Advisor, Han Kun Law Offices, the likelihood that we would be required to pay any shortfall for social insurance is low, and the likelihood that we would be subject to any administrative penalties by the relevant authorities is extremely remote, and (v) we have made provisions in connection with this non-compliance of RMB45.5 million, RMB18.4 million, RMB17.6 million and RMB0.3 million in 2015, 2016 and 2017 and the three months ended March 31, 2018, respectively.

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We have taken the following rectification measures to prevent future occurrences of such non-compliances:

- *Training.* Strengthen legal compliance training to our human resources department, including by engaging our PRC Legal Advisor to provide training to our human resources department on the relevant laws and regulations;
- *Policy.* Formulate and distribute to our employees an internal control policy with respect to social insurance contribution in compliance with relevant PRC laws and regulations;
- *Review and record-keeping.* Designate our human resources staff to monitor the payment status and prepare monthly reports of salary and contribution amounts, which shall be reviewed by our human resources department head and our finance department head to ensure that we make these payments in full and on time in accordance with relevant laws and regulations; and
- *Increasing awareness of developments in the law.* Regularly keep abreast of latest developments in PRC laws and regulations in relation to social insurance.

## RISK MANAGEMENT AND INTERNAL CONTROLS

It is the responsibility of our Board to ensure that we maintain sound and effective internal controls to safeguard our Shareholders’ investment and our assets at all times. We have adopted a series of risk management and internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our risk management and internal control system include the following:

- *Board of Directors.* Our Board of Directors is responsible for our overall risk management and internal control system and has delegated the supervision of our risk management and internal control to our audit committee. We have adopted Board procedures and audit committee charter which set forth the responsibilities of the Board and the audit committee.
- *Audit committee.* We have adopted audit committee charter which provide for the objectives and responsibilities of our audit committee, including providing guidance on the maintenance of comprehensive risk management and internal control policies, supervising our risk management and internal control system and monitoring implementation of our internal control policies through our internal audit department.
- *Internal audit department.* We have established an internal audit department which is under the supervision of our audit committee. The internal audit department is responsible for monitoring our risk management and internal control policies and independently assessing the effectiveness of our risk management and internal control system. The internal audit department independently reports to the audit committee on a quarterly basis.
- *Management team.* Our management team is responsible for establishment of our risk management and internal control system, overall implementation of our risk management and internal control policies and management of all risks related to business operations.
- *Professional ethics committee.* We have established a professional ethics committee to oversee that our employees’ behaviors comply with our code of professional ethics. Our code of professional ethics explicitly communicates to each employee our values and code

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of conduct and standards related to their professional activities. We have also implemented a whistle-blower system to encourage our employees and others to report any violations or non-compliance of the code of professional ethics.

- *Compliance with the Listing Rules.* Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by the Directors.



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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### OVERVIEW

As of the Latest Practicable Date, CITIC Capital Entities, through Skipper Investment Limited as the immediate shareholder of the Company, were entitled to control approximately 34.06% of the total number of issued Shares of our Company. As such, all CITIC Capital Entities, including Skipper Investment Limited, CITIC Capital China Partners II, L.P. (“**CITIC Cayman**”), Power Joy, CCP II GP, Ltd., CCP Ltd, CITIC Capital Partners Limited and CITIC Capital Holdings Limited are regarded as our controlling shareholders of the Company before the [REDACTED].

Immediately after completion of the Share Subdivision and the [REDACTED] (without taking into any Shares that may be issued pursuant to the [REDACTED] and without taking into account any Shares to be issued pursuant to the exercise of the outstanding options granted or to be granted under the [REDACTED] Share Option Scheme and upon vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme), the CITIC Capital Entities will be entitled to control approximately [REDACTED] of the total number of issued Shares of our Company through Skipper Investment Limited. As such, immediately after the [REDACTED], the CITIC Capital Entities will no longer be our controlling shareholders. However, Skipper Investment Limited will remain as our single largest Shareholder. CITIC Cayman is an exempted limited liability partnership whose purpose is to engage in investment or related activities. Founded in 2002, CITIC Capital Holdings Limited is an alternative investment management and advisory company, which manages over US\$22 billion of capital across 100 funds and investment products through its multiple asset class platform covering private equity, real estate, structured investment & finance, and asset management.

Apart from the business relating to the provision of software products and services to telecom operators and enterprise customers of our Group, our Controlling Shareholders, through AsiaInfo Cayman, are currently interested in other businesses such as the provision of software products and services that enable governmental bodies and public institutions to provide e-public services such as smart city and e-government services (“**E-public Service Business**”) and network security software products and related services (“**Network Security Business**”, together with the E-public Service Business, the “**Excluded Businesses**”), the details of which are set out in the paragraph headed “Excluded Businesses” in this section of the [REDACTED].

Save for their interests in the Excluded Businesses, as of the Latest Practicable Date, neither our Controlling Shareholders nor any of their associates was interested in any business which competes with or is likely to compete with our businesses and which is required to be disclosed under Rule 8.10(1).

### EXCLUDED BUSINESSES

#### Introduction

As of the Latest Practicable Date, our Controlling Shareholders are interested in the Excluded Group, which comprises of the AsiaInfo Security Group and the Guangzhou AsiaInfo Cloud Group, through its shareholding in AsiaInfo Cayman. AsiaInfo Cayman is directly interested in 70% of the shareholding interest in AsiaInfo Securities, which is the holding company of the AsiaInfo Security Group. AsiaInfo Cayman is indirectly interested in 13.3% of the shareholding interest Guangzhou AsiaInfo Cloud, which is the holding company of Guangzhou AsiaInfo Cloud Group. The AsiaInfo Security Group engages in the Network Security Business, while the Guangzhou AsiaInfo Cloud Group engages in the E-public Service Business. In order to focus on our own businesses, and to be in line with our strategic direction and development plan, the Excluded Businesses will not form part of our Group after [REDACTED].

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### Companies comprising the Excluded Group

As of the Latest Practicable Date, the following companies are considered to be material to the Excluded Businesses:

| <u>Name of company in the Excluded Group</u>                          | <u>Principal activities engaged by the company in the Excluded Group</u>   |
|---|--|
| <b><i>E-public Service Business</i></b>                               |  |
| 1. Beijing AsiaInfo Big Data, Inc.<br>(北京亞信數據有限公司)                    | Smart medical data platform, poverty alleviation data platform, smart city and e-government data platform  |
| 2. AsiaInfo Digital Technology (Fujian) Co., Ltd.<br>(亞信數電(福建)科技有限公司) | E-government data platform in Fujian Province  |
| <b><i>Network Security Business</i></b>                               |  |
| 3. AsiaInfo Chengdu   | Provision of access control software, anti-virus and antimalware software, application security software, data loss prevention software, email security software, firewalls and intrusion prevision system |

Our Controlling Shareholders have no current plan to inject the Excluded Businesses into our Group.

### DELINEATION OF BUSINESS BETWEEN OUR GROUP AND THE EXCLUDED GROUP

Although the Excluded Group engages in the Excluded Businesses, our Directors consider that there is a clear delineation of business between our Group and the Excluded Group.

Our Group focuses on the provision of mission-critical, carrier-grade software products and services to telecom operators and large-scale enterprises in the PRC, with a focus on the telecommunications sector. Our product portfolio currently consists of over 500 software products, ranging from CRM, charging & billing and big data products to IoT and intelligent network products.

The following explains the different business focus and customer base between the business of our Group and the Excluded Businesses:

#### **E-public Service Business**

The E-public Service Business operated by the Excluded Group is focused on the provision of software products and services to enable governmental bodies and public institutions to provide e-public services.

The E-public Service Business is delineated from the businesses operated by our Group for the following reasons:

- (i) *Different Products*: the products offered by the E-public Service Business include e-government data platforms, smart city, and poverty alleviation data platform, primarily targeting governmental bodies and other public institutions. In contrast, the business of our Group mainly involves provision of software products and services to telecom operators and large scale enterprises, such as precision marketing, business operation analysis system and BSS/OSS products, primarily targeting telecom operators and enterprise customers.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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- (ii) *Different Service Goals*: the products and services offered by the E-public Service Business aim to improve precise management and efficiency for governmental bodies and public institutions. Such services were mainly rendered in the domain of public services and governance. In contrast, the business operated by our Group aims to help telecom operators and enterprise customers to secure more orders and reduce costs in a commercial and business context.

### Network Security Business

The Network Security Business operated by the Excluded Group is focused on the provision of network security related software products and services to its customers. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal and in order to accommodate our customers’ project schedules and business needs, we, as a transitional arrangement, entered into project development contracts for the provision of network security software products and services with customers from time to time, and subsequently outsourced all tasks under these agreements at the same price to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We charged AsiaInfo Chengdu service fees which amounted to 2% of the contract amount of the Network Security Transitional Arrangement. We have ceased to enter into any new agreement with respect to the Network Security Transitional Arrangement starting 2018. Other than certain of the existing project development contracts in connection with the Network Security Transitional Agreement entered into by our Group and AsiaInfo Chengdu prior to 2018 which will still be ongoing and continuing, our Group will not be engaged in any Network Security Business upon [REDACTED].

The Network Security Business is delineated from the core businesses operated by our Group for the following reasons:

- (i) *Different Products*: the software products and services offered by the Network Security Business mainly include access control software, anti-virus and antimalware software, application security software, data loss prevention software, email security software, firewalls and intrusion prevention systems. In contrast, the core product offerings of our Group mainly include CRM, charging & billing and big data products to IoT and industry application products.
- (ii) *Different Service Goals*: the products and services rendered by the Network Security Business are designed to protect the usability, reliability, integrity and safety of customers’ networks and data. In contrast, the products and services rendered by our Group are mainly designed to address telecom operators and large enterprises’ most mission-critical business and operation needs.

### COMPETITION

Based on the above, our Company considers that the businesses of our Group and the Excluded Group are clearly delineated and do not directly compete with each other because (i) the products and services of our Group and the Excluded Group are not substitutable; and (ii) the products and services of our Group and the Excluded Group aim to meet different customer needs.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### REASONS FOR EXCLUSION OF THE EXCLUDED BUSINESSES FROM OUR GROUP

Our Directors do not consider it appropriate for our Group to include the Excluded Businesses in our Group on the following basis:

- (i) *Not Part of Our Core Business* - our Directors are of the view that the Excluded Businesses do not form part of our core businesses (which focus on the provision of integral software products and services primarily to telecom operators with a focus on BSS/OSS systems). The development of the Excluded Businesses is not in line with the overall strategic direction and development plans of our Group.
- (ii) *Diversion of Management Attention and Resources*—the operation, expansion and development of the Excluded Businesses will require significant management and internal resources and may divert our management’s attention and time from the operation and development of our core businesses.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THE EXCLUDED BUSINESSES

Having considered the factors below, our Directors are satisfied that our Group is capable of carrying our business independently from our Controlling Shareholders, the Excluded Group and their respective close associates after the [REDACTED].

#### 1. Management Independence

Our business is managed and conducted by our Board and senior management. Our Board has nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Group and the Excluded Group have boards of directors and management teams that function independently of each other.

Three of our non-executive Directors, namely Mr. ZHANG Yichen, Mr. XIN Yuesheng and Mr. ZHANG Liyang, hold various positions in certain CITIC Capital Entities and/or their close associates, details of which are set out in the section headed “Directors and Senior Management” of this [REDACTED].

Notwithstanding the respective roles of Mr. ZHANG Yichen, Mr. XIN Yuesheng and Mr. ZHANG Liyang in CITIC Capital Entities and/or their close associates, our Directors consider that our Board and senior management will function independently of the Excluded Group and our Controlling Shareholders and their close associates because:

- a) Each of the Directors is aware of the fiduciary duties of a Director which require, among other things, that he must act for the benefit and in the best interest of our Group and must not allow any conflict between his duties as a Director and his personal interest;
- b) In the event that there is a potential conflict of interests arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant meeting of our Board in respect of such transactions and shall not be counted in the quorum. In addition, we have independent senior management teams to carry out the business decisions of our Group independently;

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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- c) The Board comprises of nine Directors and three of them are independent non-executive Directors, which represents one-third of the members of the Board. This is in line with the requirements as set out in the Listing Rules; and
- d) Our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry which our Company is engaged in, and will therefore be able to make business decisions that are in the best interests of our Group.

Based on the above, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independent from the Excluded Group, our Controlling Shareholders and their respective close associates (other than our Group) after the [REDACTED].

### 2. Operational Independence

Our Group owns all licenses, trademarks and other intellectual property rights which are required for our Group to carry on its business. With the exception of certain services provided to us by AsiaInfo Chengdu and certain services by us to AsiaInfo Chengdu, being an indirect non-wholly owned subsidiary of our Controlling Shareholders (details of which are described in the section headed “Connected Transactions”), the Group has independent work force to carry out our businesses. The Group also has sufficient operational capacity in terms of capital, equipment and employees to operate our businesses independently from the Excluded Group and our Controlling Shareholders.

Based on the above, our Directors believe that we are able to operate independently of the Excluded Group, our Controlling Shareholders and their respective close associates.

### 3. Financial Independence

We have our own independent internal control and accounting systems, and our own finance department is responsible for discharging treasury function, accounting and reporting functions independent from our Controlling Shareholders and the Excluded Group. Immediately following the completion of the [REDACTED], there will be no financing relationship between us and our Controlling Shareholders and the Excluded Group and their respective close associates. For information about loans or guarantees provided by, or granted to, our Controlling Shareholders during the Track Record Period, please see headed “Financial Information—Related Party Transactions”. Our Directors believe that we are capable of obtaining financing from independent third parties without reliance on our Controlling Shareholders, the Excluded Group and their respective close associates.

Accordingly, our Directors consider that the Group is capable of carrying out our business independently of the Excluded Group, our Controlling Shareholders and their respective close associates from a financial perspective.

## DEED OF NON-COMPETITION

In order to ensure that direct competition does not develop between us and the activities of our Controlling Shareholders, Skipper Investment Limited entered into a deed of non-competition in favor

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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of our Company on July 5, 2018, pursuant to which Skipper Investment Limited has undertaken to our Company (for itself and for the benefit of its subsidiaries) that it would not, and it would use its best endeavors to procure that its associates (except any members of our Group) shall not, whether directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of our Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with the business of any member of our Group.

If any investment or other business opportunity relating to our business is identified by Skipper Investment Limited (“**Business Opportunity**”), it shall refer such Business Opportunity to our Company and shall not pursue such Business Opportunity unless our Directors or a board committee declines the Business Opportunity.

Pursuant to the deed of non-competition, the obligations of the Skipper Investment Limited thereunder would terminate on the earliest of the date on which Skipper Investment Limited ceases to hold directly or indirectly in aggregate 15% or more of the issued shares of the Company or the Shares cease to be [REDACTED] on the Stock Exchange.

Further, the independent non-executive Directors will review, on an annual basis, the compliance of Skipper Investment Limited with the deed of non-competition (in particular, the right of first refusal relating to any Business Opportunity) and our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the deed of non-competition in our annual report or by way of announcement to the public.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) compliance with the Listing Rules, in particular, strictly observe any proposed transactions between us and our connected persons and comply with the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules where applicable;
- (b) appointment of Anglo Chinese Corporate Finance, Limited as our compliance adviser to advise us on the compliance matters in respect of the Listing Rules and applicable laws and regulations;
- (c) appointment of three independent non-executive Directors in order to achieve a balanced composition of executive and non-executive Directors in our Board. The independent non-executive Directors have the qualification, integrity, independence and experience to fulfill their roles effectively. See “Directors and Senior Management” in this [REDACTED] for further details of our independent non-executive Directors;
- (d) in the event that connected transactions, if any, between our Group and other business in which any Director or his respective associates had any interest are submitted to the Board for consideration, the relevant interested Director will not be counted in the quorum and will abstain from voting on such matters, and majority votes by non-conflicted Directors are required to decide on such connected transactions;



## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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- (e) our independent non-executive Directors will review, on an annual basis, the compliance with the deed of non-competition by Skipper Investment Limited;
- (f) Skipper Investment Limited has undertaken to our Company that it will provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the deed of non-competition; and
- (g) Skipper Investment Limited will make an annual confirmation to our Company on compliance with the deed of non-competition which shall be disclosed in the annual report of our Company or by way of announcements to the public.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

Pursuant to Chapter 14A of the Listing Rules the transactions that we enter into with our connected persons (as defined under Chapter 14A of the Listing Rules) will constitute our continuing connected transactions under the Listing Rules upon [REDACTED].

### CONNECTED PERSONS

Following the [REDACTED], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

**AsiaInfo Chengdu:** AsiaInfo Chengdu is an indirect non-wholly owned subsidiary of our substantial shareholder, Skipper Investment Limited, and is therefore a connected person of our Group pursuant to Rule 14A.13(1) of the Listing Rules.

**AsiaInfo International:** AsiaInfo International, being a company controlled by Dr. Tian, is a connected person of our Group pursuant to Rule 14A.12(1)(c) of the Listing Rules.

Upon [REDACTED], the following transactions between each of the connected persons and the Group, which are entered into in the ordinary and usual course of business of our Group on normal commercial terms on a recurring and continuing nature, will constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

### FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below is a summary of the continuing connected transactions of our Group which are exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

#### 1. Office Premise Services Provided by Our Group to AsiaInfo Chengdu

On [●], 2018, our Company [entered] into an office premise services framework agreement with AsiaInfo Chengdu whereby our Company (on behalf of members of our Group) agreed to provide work stations space and certain ancillary office maintenance services to AsiaInfo Chengdu. The relevant work stations are located at No. 10 Xibeiwang East Road, Haidian District, Beijing, PRC.

The term of the office premise services framework agreement is from the [REDACTED] until December 31, 2020. The consideration payable by AsiaInfo Chengdu to our Group under the office premise services framework agreement is calculated based on the actual work stations occupied by AsiaInfo Chengdu at a price of RMB15,000 per standard work station per year (subject to annual review based on the prevailing property rental market price and consumer price index), which was determined with reference to the site area and the property rental market price in the vicinity area of the relevant office premises.

#### 2. Office Premise Services Provided by Our Group to AsiaInfo International

On [●], 2018, our Company [entered] into an office premise services framework agreement with AsiaInfo International whereby our Company (on behalf of members of our Group) agreed to provide work stations space and certain ancillary office maintenance services to AsiaInfo International and its subsidiaries (the “**AsiaInfo International Group**”). The relevant work stations are located at No. 10 Xibeiwang East Road, Haidian District, Beijing, PRC.

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## CONNECTED TRANSACTIONS

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The term of the office premise services framework agreement is from the [REDACTED] until December 31, 2020. The consideration payable by AsiaInfo International to our Group under the office premise services framework agreement is calculated based on the actual work stations occupied by the AsiaInfo International Group at a price of RMB15,000 per standard work station per year (subject to annual review based on the prevailing property rental market price and consumer price index), which was determined with reference to the site area and the property rental market price in the vicinity area of the relevant office premises.

### 3. Technological Services Provided by Our Group to AsiaInfo International

Historically, AsiaInfo China has provided technological services to the AsiaInfo International Group whereby professional staff of AsiaInfo China provided technological support to projects undertaken by the AsiaInfo International Group. We expect the provision of such technological support services to continue after [REDACTED].

To comply with the requirements of the Listing Rules, on [●], 2018, AsiaInfo International [entered] into a technological cooperation framework agreement (the “**International Technological Service Framework Agreement**”) with our Company whereby our Company (on behalf of members of our Group) agreed to provide professional staff and technological services to support the projects undertaken by the AsiaInfo International Group. The term of the International Technological Service Framework Agreement is from the [REDACTED] until December 31, 2020.

The service fees payable by the AsiaInfo International Group to our Group under any technological service agreement pursuant to the International Technological Service Framework Agreement will be determined based on arm’s length negotiation between the parties on a “cost-plus” basis with reference to (i) the staff costs (including staff salaries and disbursements); and (ii) a 6% premium on such costs. In determining the staff costs, the parties will take into account factors such as the market salary rate, performance and experience of the relevant professional staff and the general nature of work to be provided. The 6% premium is determined based on an independent transfer pricing report prepared by an independent financial expert.

### 4. Management Support Services Provided by Our Group to AsiaInfo International

Since 2017, our Group has provided certain management support services to the AsiaInfo International Group to support the back-office functions of the AsiaInfo International Group. It is expected that the provision of such services will continue after [REDACTED].

To comply with the requirements of the Listing Rules, on [●] 2018, our Company [entered] into a management support service framework agreement (the “**International Management Support Framework Agreement**”) with AsiaInfo International, pursuant to which our Company (on behalf of members of our Group) agreed to provide the AsiaInfo International Group with management support services, which cover management services including legal support, human resources, management system and network and daily administrations etc. The term of the International Management Support Framework Agreement is from the [REDACTED] until December 31, 2020.

The service fees payable by the AsiaInfo International Group to our Group under any management support agreement pursuant to the International Management Support Framework Agreement will be determined based on arm’s length negotiation between the parties on a “cost-plus” basis with reference to (i) all of the costs for the provision of the relevant services; and (ii) a 6% premium on such costs. The 6% premium is determined based on an independent transfer pricing report prepared by an independent financial expert.

## CONNECTED TRANSACTIONS

### PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are entered into in the ordinary and usual course of business of our Group and on normal commercial terms. Our Directors currently expect, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% on an annual basis. Accordingly, under Rule 14A.76(2)(a) of the Listing Rules, the following transactions will be subject to the reporting, announcement and annual review requirements but will be exempted from the circular (including independent financial advice) and shareholders’ approval requirements under Chapter 14A of the Listing Rules.

#### 1. Technological Services Provided by AsiaInfo Chengdu to Our Group

##### *Background:*

Following our disposal of AsiaInfo Chengdu in late 2015, our Group has sought technological services from AsiaInfo Chengdu whereby (i) professional staff of AsiaInfo Chengdu provided technological support, primarily in the area of network security support, to projects undertaken by our Group; and (ii) AsiaInfo Chengdu provided certain network security services and products to our Group. We expect that the provision of such services will continue after [REDACTED].

To comply with the requirements of the Listing Rules, on [●], 2018, AsiaInfo Chengdu [entered] into a technological cooperation framework agreement (the “**Chengdu Technological Service Framework Agreement**”) with our Company whereby AsiaInfo Chengdu agreed to (i) provide professional staff to support the projects undertaken by our Group; and (ii) provide certain network security services and products to our Group. The term of the Chengdu Technological Service Framework Agreement is from the [REDACTED] until December 31, 2020.

##### *Pricing Policy:*

The service fees payable by our Group to AsiaInfo Chengdu under any technological service agreement pursuant to the Chengdu Technological Service Framework Agreement will be determined based on arm’s length negotiation between the parties with reference to (i) the staff costs (including salaries and staff disbursements) and/or (ii) market rate of the similar products and services. In any event, such service fees shall not be higher than the price charged by AsiaInfo Chengdu to its independent third party customers for similar services and products.

##### *Historical Transaction Amounts:*

The approximate annual transaction amounts paid by our Group to AsiaInfo Chengdu for the technological services for the three years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018 are as follows:

| For the year ended December 31, |            |            | For the three months ended March 31, 2018 |
|---------------------------------|------------|------------|---|
| 2015                            | 2016       | 2017       |   |
| (RMB)                           | (RMB)      | (RMB)      | (RMB)                                     |
| 14,721,575                      | 36,079,497 | 20,309,291 | 1,588,628                                 |

## CONNECTED TRANSACTIONS

### *Annual Caps and Basis of Caps:*

We expect that the maximum aggregate fees and expenses for the technological services payable by our Group to AsiaInfo Chengdu for the years ending December 31, 2018, 2019 and 2020 will be as follows:

| For the year ending December 31, |            |            |
|----------------------------------|------------|------------|
| 2018                             | 2019       | 2020       |
| (RMB)                            | (RMB)      | (RMB)      |
| 17,350,000                       | 23,020,000 | 24,000,000 |

In arriving at the above annual caps in respect of the technological services to be provided by AsiaInfo Chengdu, our Directors have considered the following factors (i) the pricing policy under the Chengdu Technological Service Framework Agreement; (ii) the pipeline of projects and estimated workload of our Group in 2018, 2019 and 2020; (iii) the expected growth and expansion of our Group in light of the development of the 5G network; (iv) our estimate of market trend for labor cost of technological staff; and (v) the increasing focus of our customers on the network security features in our products.

## 2. Network Security Transitional Arrangement

### *Background:*

After our disposal of AsiaInfo Chengdu in late 2015 and in order to accommodate our customers’ project management schedules and business needs, we, as a transitional arrangement, entered into project development contracts for the provision of network security software products and services by AsiaInfo Chengdu to our customers and subsequently outsourced all tasks under these agreements at the same price to AsiaInfo Chengdu by signing project development contracts with AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We have ceased to enter into any new agreements with respect to the Network Security Transitional Arrangement starting 2018. However, upon [REDACTED], certain of the project development contracts for the provision of network security software products and services entered into between our Group and AsiaInfo Chengdu prior to 2018 (the “**Existing Development Agreements**”) will still be ongoing. The continuing performance of the obligations under such contracts will constitute continuing connected transaction of our Group after [REDACTED]. Part and parcel to the project development contracts in connection with the Network Security Transitional Arrangement, we also entered into a strategic cooperation agreement with AsiaInfo Chengdu, pursuant to which AsiaInfo Chengdu agreed to pay us service fees at the rate of 2% based on the total contract amount of the relevant project development contracts (the “**Existing Cooperation Agreement**”, together with the Existing Development Agreements, the “**Existing Agreements**”) in consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement such as contract management, customer relationship management and liaison services.

To comply with the requirements of the Listing Rules, on [●], 2018, AsiaInfo Chengdu [entered] into a software development and strategic cooperation framework agreement (the “**Network Security Framework Agreement**”) with our Company whereby (i) our Company (on behalf of members of our Group) agreed to continue to outsource all tasks under the Existing Development Agreements to AsiaInfo Chengdu at the same price at which we agreed to charge our customers under the relevant project development contracts we entered into with our customers; and (ii) AsiaInfo Chengdu agreed to continue to be bound by the Existing Cooperation Agreement and pay us service fees at the rate of 2% based on the total outstanding contract amount of the Existing Development

## CONNECTED TRANSACTIONS

Agreements. The term of the Network Security Framework Agreement is from the [REDACTED] until December 31, 2020. Pursuant to the Software Development and Cooperation Agreement, if there is any conflict between the Existing Agreements and the Software Development and Cooperation Framework Agreement, the provisions in the Software Development and Cooperation Framework Agreement shall prevail.

### ***Pricing Policy:***

The fees and expenses payable under the Network Security Framework Agreement and the Existing Agreements have been determined based on arm’s length negotiations between the parties. The consideration payable under the Existing Development Agreements shall equal to the price at which we agreed to charge our customers under the relevant project development contracts. In setting the service fees payable by AsiaInfo Chengdu to our Group at the rate of 2%, the parties have taken into consideration and benchmarked against the market rate for transactions of similar nature with reference to an independent transfer pricing report provided by an independent financial expert.

### ***Historical Transaction Amounts:***

The approximate historical amount of (i) fees paid by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement and (ii) the service fees paid by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018 are as follows:

|  | For the year ended December 31, |             |             | For the three months ended |
|--|---------------------------------|-------------|-------------|----------------------------|
|  | 2015                            | 2016        | 2017        | March 31, 2018             |
|  | (RMB)                           | (RMB)       | (RMB)       | (RMB)                      |
| Fees paid by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement . . . . . | 74,524,896                      | 341,308,323 | 123,445,307 | 4,197,800                  |
| Service fees paid by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement . . . . .                             | 1,490,498                       | 6,836,357   | 2,468,906   | 83,956                     |

### ***Annual Caps and Basis of Caps:***

We expect that the aggregate maximum amount of fees paid by our Group to AsiaInfo Chengdu for the outsourced service and the service fees paid by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement for the years ending December 31, 2018, 2019 and 2020 will be as follows:

|   | For the year ending December 31, |           |           |
|---|----------------------------------|-----------|-----------|
|   | 2018                             | 2019      | 2020      |
|   | (RMB)                            | (RMB)     | (RMB)     |
| Fees payable by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement . . . . . | 13,670,000                       | 7,520,000 | 1,880,000 |
| Service fees payable by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement . . . . .                             | 273,400                          | 150,400   | 37,600    |

In arriving at the above annual caps in respect of the fees payable by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement



## CONNECTED TRANSACTIONS

and the service fees payable by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement, our Directors have considered the following factors (i) the backlog of the projects under the Existing Development Agreements and the corresponding project development contracts we signed with the customers; (ii) the estimated progress of the projects under the Existing Development Agreements and the corresponding project development contracts we signed with the customers; and (iii) the service fees at the rate of 2% under the Network Security Transitional Arrangement.

### 3. Management Support Services Provided by Our Group to AsiaInfo Chengdu

#### *Background:*

Historically, our Group has provided certain management support services to AsiaInfo Chengdu to support the back-office functions of AsiaInfo Chengdu. It is expected that such services will continue after [REDACTED].

To comply with the requirements of the Listing Rules, on [●] 2018, our Company [entered] into a management support service framework agreement (the “**Chengdu Management Support Framework Agreement**”) with AsiaInfo Chengdu, pursuant to which our Group agreed to provide AsiaInfo Chengdu and its subsidiaries with management support services, which cover management services including legal support, human resources, management system and network, daily administrations etc. The term of the Chengdu Management Support Framework Agreement is from the [REDACTED] until December 31, 2020.

#### *Pricing Policy:*

The service fees payable by AsiaInfo Chengdu to our Group under any management support service agreement pursuant to the Chengdu Management Support Framework Agreement will be determined based on arm’s length negotiation between the parties on a “cost-plus” basis with reference to (i) all of the costs for the provision of the relevant services; and (ii) a 6% premium on such costs. The 6% premium is determined based on an independent transfer pricing report prepared by an independent financial expert.

#### *Historical Transaction Amounts:*

The approximate annual fees paid by AsiaInfo Chengdu to our Group for the management support services for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018 are as follows:

| For the year ended December 31, |            |            | For the three months ended |
|---------------------------------|------------|------------|----------------------------|
| 2015                            | 2016       | 2017       | March 31, 2018             |
| (RMB)                           | (RMB)      | (RMB)      | (RMB)                      |
| 11,473,645                      | 43,947,368 | 17,493,525 | 356,367                    |

## CONNECTED TRANSACTIONS

### *Annual Caps and Basis of Caps:*

We expect that the maximum aggregate fees for the management support services payable by AsiaInfo Chengdu to our Group for the years ending December 31, 2018, 2019 and 2020 will be as follows:

| For the year ending December 31, |            |            |
|----------------------------------|------------|------------|
| 2018                             | 2019       | 2020       |
| (RMB)                            | (RMB)      | (RMB)      |
| 15,850,000                       | 11,200,000 | 10,000,000 |

In arriving at the above annual caps in respect of the management support services to be provided by our Group to AsiaInfo Chengdu, our Directors have considered the following factors (i) the historical amounts of the services fees for the management support services received by our Group from AsiaInfo Chengdu; (ii) AsiaInfo Chengdu is expected to continue to develop its internal back-office functions in the future; and (iii) the estimated reduced demand of the management support services by AsiaInfo Chengdu in the future.

### **WAIVER APPLICATION FOR PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Our Directors, including the independent non-executive Directors, consider that disclosure of the partially exempt continuing connected transactions described above in full compliance with the Listing Rules would be impracticable and, in particular, would add unnecessary administrative costs to our Company. In addition, the Directors, including the independent non-executive Directors, believe that it is in the interest of our Company to continue with these transactions after [REDACTED].

As a result, pursuant to Rule 14A.105 of the Listing Rules, we have sought and obtained from the Stock Exchange a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of partially exempt continuing connected transactions, subject to the condition that the annual transaction values shall not exceed their respective estimated annual caps (as stated above).

In addition, the Directors confirm that we will comply with the applicable requirements under Chapter 14A of the Listing Rules and will immediately inform the Stock Exchange if any of the proposed annual caps set out above are exceeded, or when there is a material change in the terms of the transactions.

### **CONFIRMATION FROM THE DIRECTORS**

The Directors, including the independent non-executive Directors, are of the view that:

- (a) the continuing connected transactions described above for which a waiver is sought have been entered into and will be carried out in the ordinary and usual course of business of our Group on normal commercial terms, and that the terms of the continuing connected transactions are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and
- (b) the proposed annual caps (where applicable) of such continuing connected transactions set out above are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

## **CONNECTED TRANSACTIONS**

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### **CONFIRMATION FROM THE JOINT SPONSORS**

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by our Company relating to the partially exempt continuing connected transactions above, and has also discussed this transaction with us and obtained various representations from us. Based on the aforementioned due diligence work, the Joint Sponsors are of the view that:

- (a) such partially exempt continuing connected transactions set out above for which a waiver is sought have been entered into in the ordinary and usual course of business of our Group on normal commercial terms, are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and
- (b) the proposed annual caps (where applicable) of such partially exempt continuing connected transactions set out above are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors.

The following table sets out certain information in respect of our Directors and senior management:

#### *Directors*

| <u>Name</u>                        | <u>Age</u> | <u>Position/Title</u>                          | <u>Roles and Responsibility</u>   | <u>Date of appointment</u>    | <u>Time of Joining our Group</u> |
|------------------------------------|------------|--|---|-------------------------------|----------------------------------|
| TIAN Suning<br>(田溯寧) . . . . .     | 55         | Chairman and Executive Director                | Responsible for the overall strategic planning and business direction of the Group          | June 26, 2018                 | May 2, 1995                      |
| DING Jian<br>(丁健) . . . . .        | 53         | Executive Director                             | Participating in formulation of business plans, strategies and major decisions of the Group | June 26, 2018                 | May 2, 1995                      |
| GAO Nianshu<br>(高念書) . . . . .     | 54         | Executive Director and chief executive officer | Responsible for the overall business operations and management of the Group                 | August 18, 2017               | July 11, 2016                    |
| ZHANG Yichen<br>(張懿宸) . . . . .    | 55         | Non-executive Director                         | Responsible for providing professional opinion and judgment to the Board                    | June 26, 2018                 | January 15, 2014                 |
| XIN Yuesheng<br>(信躍升) . . . . .    | 48         | Non-executive Director                         | Responsible for providing professional opinion and judgment to the Board                    | June 26, 2018                 | August 31, 2016                  |
| ZHANG Liyang<br>(張立陽) . . . . .    | 32         | Non-executive Director                         | Responsible for providing professional opinion and judgment to the Board                    | June 26, 2018                 | January 31, 2018                 |
| GAO Jack Qunyao<br>(高群耀) . . . . . | 60         | Independent Non-executive Director             | Responsible for supervising and offering independent judgment to the Board                  | August 2, 2018 <sup>(1)</sup> | August 2, 2018                   |
| ZHANG Ya-Qin<br>(張亞勤) . . . . .    | 52         | Independent Non-executive Director             | Responsible for supervising and offering independent judgment to the Board                  | August 2, 2018 <sup>(1)</sup> | August 2, 2018                   |
| GE Ming (葛明) . . . . .             | 66         | Independent Non-executive Director             | Responsible for supervising and offering independent judgment to the Board                  | August 2, 2018 <sup>(1)</sup> | August 2, 2018                   |

*Note:*

(1) Appointment effective upon the [REDACTED].

## DIRECTORS AND SENIOR MANAGEMENT

### *Senior Management*

| Name                           | Age | Position/Title   | Roles and Responsibility   | Date of appointment | Time of Joining our Group |
|--------------------------------|-----|--|--|---------------------|---------------------------|
| HUANG Ying<br>(黃纓) . . . . .   | 49  | Senior vice president and chief financial officer  | Responsible for the overall management of finance, tax, auditing and legal matters of the Group          | April 6, 2017       | April 2017                |
| CHEN Wu<br>(陳武) . . . . .      | 51  | Senior vice president, general manager of the business development and government affairs center | Responsible for the overall management of business development and government affairs of the Group       | February 13, 2015   | April 2011                |
| LIANG Bin<br>(梁斌) . . . . .    | 47  | Vice president, general manager of the business division for China Mobile                        | Responsible for the overall operations management of the business division for China Mobile of the Group | January 3, 2017     | August 2002               |
| SUN Mingjie<br>(孫明潔) . . . . . | 54  | Vice president and general manager of the operations management center                           | Responsible for the overall management of the operations management center of the Group                  | November 4, 2016    | July 1996                 |
| OUYANG Ye<br>(歐陽曄) . . . . .   | 37  | Vice president and chief technology officer  | Responsible for the research, development and innovation of the products and technologies of the Group   | July 11, 2018       | July 2018                 |

## DIRECTORS

The Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening shareholders’ meetings, reporting on the Board’s work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

### **Executive Directors**

**Dr. TIAN Suning** (田溯寧), aged 55, co-founded our Group in 1994, and is the chairman and an executive Director of our Company. Dr. Tian has over 20 years of experience in the business of software products, provision of IT services and software solutions, and is primarily responsible for the overall strategic planning and business direction of our Group. Dr. Tian served as a non-executive director, chief executive officer and vice chairman successively at China Netcom Group Corporation (Hong Kong) Limited from November 2004 to July 2007. Dr. Tian served as the deputy general manager at China Netcom Communications Group Corporation from August 1999 to November 2004. Dr. Tian is the founder and chairman of a private equity fund, China Broadband Capital Partners, L.P. since July 2006. Dr. Tian has been an independent non-executive director of Lenovo Group Limited

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## DIRECTORS AND SENIOR MANAGEMENT

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(listed on the Stock Exchange, stock code: 0992) since August 2007. Dr. Tian has been an independent non-executive director of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) (listed on the Shanghai Stock Exchange, stock code: 600016 and also listed on the Stock Exchange, stock code: 1988) since June 2018. He was an independent director of Shanghai Pudong Development Bank Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600000) from April 2016 to March 2018. He was also an independent non-executive director of Taikang Life Insurance Company Ltd. from July 2008 till August 2016. He was a non-executive director of Huayi Tencent Entertainment Company Limited (formerly known as China Jiu hao Health Industry Corporation Limited) (listed on the Stock Exchange, stock code: 0419) from January 2008 to February 2016, and served as an independent non-executive director of Mastercard Incorporated (listed on the New York Stock Exchange, NYSE: MA) from March 2006 to June 2016 and a deputy chairman and a non-executive director of PCCW Limited (listed on the Stock Exchange, stock code: 0008) between April 2005 and June 2007. Dr. Tian was awarded the New Century Talents - National Candidates (新世紀百千萬人才國家級人選) in 2004, which was issued by the Ministry of Human Resources and Social Security of the PRC. Dr. Tian obtained his Ph.D. degree in natural resource management from Texas Tech University in December 1993 and a Master of Ecology from Chinese Academy of Sciences in July 1988.

**Mr. DING Jian (丁健)**, aged 53, is an executive Director and was appointed as a Director of our Company in June 2018. He joined our Group in January 2014. He has over 15 years of experience in investment in telecommunications, media and technology industries and is primarily responsible for participating in formulation of business plans, strategies and major decisions of our Group. He served as the chairman of the board of AsiaInfo-Linkage, Inc. between April 2003 and July 2010, and has also served as a co-chairman since July 2010. Mr. Ding is currently a managing director and general partner of GSR Ventures, a venture capital fund, a role in which he has served since June 2005. He has served as an independent director of Baidu, Inc. (listed on NASDAQ, NASDAQ: BIDU) since August 2005. Mr. Ding served as an independent director of Huayi Brothers Media Corporation (listed on the Shenzhen Stock Exchange, stock code: 300027) from March 2011 to August 2017. Mr. Ding obtained a Master of Science in information science from the University of California, Los Angeles in September 1990.

**Mr. GAO Nianshu (高念書)**, aged 54, is an executive Director and was appointed as a Director of our Company in August 2017. He joined our Group in July 2016 as the chief executive officer of our Company. He is primarily responsible for the overall business operations and management of our Group. Mr. Gao has over 20 years of work experience as senior management in large telecommunications companies. He served as a non-executive director of Phoenix Satellite Television Holdings Limited (listed on the Stock Exchange, stock code: 2008) between September 2006 and August 2016. Mr. Gao served as the general manager of both the data department and the market operations department of China Mobile Communications Corporation (中國移動通信集團公司) between September 2005 and July 2016. Mr. Gao served as the vice general manager of the market operations department, the general manager and the general manager assistant of the business center of Beijing Mobile Communication Company Limited (北京移動通信有限責任公司) between June 2002 and September 2005. Mr. Gao also served as a non-executive director of True Corporation Public Company Limited (listed on the Stock Exchange of Thailand, BKK: TRUE) between 2014 and 2016. Mr. Gao was presented with the award “Outstanding Entrepreneur in China’s Electronic Information Industry (中國電子信息行業卓越企業家)” issued by China Information Technology Industry Federation (中國電子信息行業聯合會) in January 2018. In January 2018, he also received the “2017 Outstanding Entrepreneur in China’s Software Industry (2017年中國軟件行業優秀企業家)” award from China Software Industry Association (中國軟件行業協會). In the 2017 Information and Communication



## DIRECTORS AND SENIOR MANAGEMENT

Technology (“ICT”) Leaderboard & Excellence Program Award Ceremony (2017 ICT龍虎榜&優秀方案頒獎典禮) held by Communication World Omnimedia (通信世界全媒體) in December 2017, Mr. Gao was presented with the award “2017 Top Ten ICT Influencers” (2017年ICT十大影響人物). He was awarded the qualification as a senior engineer from Chinese Academy of Sciences in 1994. Mr. Gao obtained a bachelor’s degree in science of computing major from the department of mathematics in Jilin University in July 1986, a master’s degree in engineering from the Institute of Computing Technology, Chinese Academy of Sciences in August 1994, and an EMBA degree from Peking University in June 2005.

### Non-executive Directors

**Mr. ZHANG Yichen** (張懿宸), aged 55, is a non-executive Director of our Company and was appointed as a Director in June 2018. Mr. Zhang joined our Group in January 2014. He has over 30 years of experience in the financial industry and is primarily responsible for providing professional opinion and judgment to the Board. Mr. Zhang began his career in 1987 and has previously worked for Greenwich Capital Markets, Bank of Tokyo New York Branch as head of proprietary trading, and Merrill Lynch, where he was the managing director of debt capital market for Greater China. Mr. Zhang returned to China in the mid-1990s and advised the Ministry of Finance of the PRC and other Chinese agencies on the development of the domestic government bond market. Mr. Zhang is the chairman and the chief executive officer of CITIC Capital Holdings Limited, a global alternative investment management and advisory company. Prior to his participation in founding CITIC Capital Holdings Limited, Mr. Zhang was an executive director of CITIC Limited (formerly known as CITIC Pacific Limited, whose shares are listed on the main board of the Stock Exchange (stock code: 0267)) from March 2000 to May 2002, and also the president of CITIC Pacific Communications Limited from March 2000 to May 2002. Mr. Zhang served as an independent director of Weibo Corporation from January 2014 to December 2015, whose securities are listed on NASDAQ (NASDAQ: WB). Since May 2002, Mr. Zhang has been serving as an independent director of Sina Corporation, whose securities are listed on NASDAQ (NASDAQ: SINA). Since June 2012, Mr. Zhang has been serving as the chairman of board and a non-executive director of Universal Medical Financial & Technical Advisory Services Company Limited (listed on the Stock Exchange, stock code: 2666). Mr. Zhang is a member of the 11<sup>th</sup>, 12<sup>th</sup> and 13<sup>th</sup> National Committee of the Chinese People’s Political Consultative Conference. Mr. Zhang obtained a Bachelor of Science degree in computer science from Massachusetts Institute of Technology, the USA in June 1986.

**Mr. XIN Yuesheng** (信躍升), aged 48, is a non-executive Director of our Company and was appointed as a Director in June 2018. Mr. Xin joined our Group in August 2016. He has over 26 years of experience in finance and investment and is primarily responsible for providing professional opinion and judgment to the Board. Mr. Xin currently serves as a senior managing director of CITIC Capital Holdings Limited and the managing partner of its private equity arm CITIC Capital Partners. He joined the firm in August 2002 and is responsible for the private equity investment business in China since 2004. Between December 1999 to August 2002, he served as a management consultant at McKinsey & Company in Shanghai and the Washington, D.C. to develop business strategies for global clients. From August 1992 to December 1996, Mr. Xin also served as a deputy manager for China Leasing Co., Ltd. (中國租賃有限公司), the largest leasing company in China and a subsidiary of CITIC Group Corporation Ltd. Mr. Xin served as a director of Focus Media Information Technology Co., Ltd. (分眾傳媒信息技術股份有限公司) (listed on the Shenzhen Stock Exchange, stock code: 002027) from March 2016 to November 2016. He obtained a Bachelor of Economics degree from Peking University in July 1992 and an MBA from Harvard Business School with honors in June 1999.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. ZHANG Liyang (張立陽)**, aged 32, is a non-executive Director and was appointed as a Director of our Company in June 2018. Mr. Zhang joined our Group in January 2018. He is responsible for providing professional opinion and judgment to the Board. Mr. Zhang has over ten years of experience in business strategy and finance. He is currently a director of CITIC Capital Partners Advisory (Shanghai) Limited, responsible for private equity investments in telecommunications, media, technology and industrial sectors since June 2010. From August 2008 to June 2010, he worked for McKinsey & Company as a management consultant, providing strategic and operational advice for leading Chinese telecom and energy companies. Mr. Zhang obtained his MBA from Institut Européen d’Administration des Affaires (INSEAD) in December 2013 and a Bachelor of Engineering from Zhejiang University in June 2008.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. GAO Jack Qunyao (高群耀)**, aged 60, has been appointed as an independent non-executive Director of our Company effective as of the [REDACTED]. Dr. Gao has extensive experience in IT, media, entertainment and venture capital. Dr. Gao is currently the adjunct professor of the business school of The Chinese University of Hong Kong since 2011. Dr. Gao has been the founding partner and the chief executive officer at Beijing Times Digiwork Films Technology Co., Ltd. (Smart Cinema) (北京雲途時代影業科技有限公司(移動電影院) ) since April 2018. Dr. Gao has been a director of AGTech Holdings Limited (listed on the Stock Exchange, stock code: 8279) since May 2015. Dr. Gao was the interim chief executive officer of Legendary Entertainment LCC from January 2017 to October 2017, and was also a director of Legendary Entertainment LCC from January 2016 to October 2017. Dr. Gao served as a director at AMC Entertainment Holdings, Inc. (listed on the New York Stock Exchange, NYSE: AMC) from September 2015 to October 2017. Dr. Gao also served as the senior group vice president and the chief executive officer of the international investments and operations, Wanda Cultural Industry Group from June 2015 to October 2017. Dr. Gao was previously a director of Vantone Holdings Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600246) from June 2010 to April 2017. Dr. Gao also served as the corporate senior vice president of News Corporation (listed on NASDAQ, NASDAQ: NWS) from November 2006 to July 2014. Dr. Gao was an alternate director at Phoenix Media Investment (Holdings) Limited (鳳凰衛視投資(控股)有限公司) (formerly known as “Phoenix Satellite Television Holdings Limited (鳳凰衛視控股有限公司)”) (listed on the Stock Exchange, stock code: 2008) from May 2010 to June 2013. Dr. Gao served as the corporate vice president at Autodesk, Inc. (listed on NASDAQ, NASDAQ: ADSK) from June 2003 to November 2006. He was also the general partner of Walden International from May 2002 to April 2003. Dr. Gao served as the president and the general manager of Microsoft (China) Co. Ltd., a subsidiary of Microsoft Corporation (listed on NASDAQ, NASDAQ: MSFT) from December 1999 to May 2002. Dr. Gao obtained his bachelor’s degree, master’s degree and his Ph.D. degree in engineering mechanics from Harbin Institute of Technology in January 1982, December 1984 and December 1994, respectively.

**Dr. ZHANG Ya-Qin (張亞勤)**, aged 52, has been appointed as an independent non-executive Director of our Company effective as of the [REDACTED]. Dr. Zhang has extensive experience in the technology and business operation of wireless and satellite communications, security, networking and digital video segments. Dr. Zhang has been an independent non-executive director of a number of companies, including Chinasoft International Limited (listed on the Stock Exchange, stock code: 354) since December 2008 and Tarena (listed on NASDAQ, NASDAQ: TEDU) since April 2014. Dr. Zhang served as an independent non-executive director of ChinaCache (listed on NASDAQ, NASDAQ: CCIH) from September 2010 to June 2017 and China Digital Video Holdings Limited

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## DIRECTORS AND SENIOR MANAGEMENT

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(listed on the Stock Exchange, stock code: 8280) from January 2011 to June 2018. Dr. Zhang is currently the president of Baidu, Inc. (listed on NASDAQ, NASDAQ: BIDU) since September 2014. Before joining Baidu, Dr. Zhang served various positions at Microsoft Corporation (listed on NASDAQ, NASDAQ: MSFT) from January 1999 to September 2014, including: the corporate vice president of Microsoft Corporation, the chairman of Microsoft Asia-Pacific Research & Development Group responsible for driving Microsoft’s overall research and development efforts in China and the Asia-Pacific region, the managing director and the chief scientist as well as an original founder of Microsoft Research Asia where he was in charge of Microsoft’s mobile and embedded division in Microsoft’s headquarters. Dr. Zhang is also a member of Committee 100, a group of leading Chinese-Americans to promote the political, science, social and economic exchanges between the US and China. Dr. Zhang was awarded a fellow of the Australian Academy of Technology and Engineering in December 2017, and he has also been a fellow of the Institute of Electrical and Electronics Engineers since March 1997. Dr. Zhang obtained his bachelor’s degree in radio electronics and master’s degree in telecommunication and electrical systems from the University of Science and Technology of China (中國科技大學) in July 1983 and January 1986 respectively. In February 1990, Dr. Zhang obtained his Ph.D. degree in electrical engineering from George Washington University, Washington D.C.

**Mr. GE Ming (葛明)**, aged 66, has been appointed as an independent non-executive Director of our Company effective as of the [REDACTED]. Mr. Ge has extensive experience in the field of auditing and advisory services and has assisted in the listing of various PRC companies on the Stock Exchange. Mr. Ge has been appointed as an independent non-executive director of Asia Investment Finance Group Limited (listed on the Stock Exchange, stock code: 33) since May 2017. Mr. Ge is an independent director of Focus Media Information Technology Co., Ltd. (分眾傳媒信息技術股份有限公司) (listed on the Shenzhen Stock Exchange, stock code: 002027) since January 2016. Mr. Ge served as a non-executive director of China Innovation Investment Limited (listed on the Stock Exchange, stock code: 1217) from June 2015 to February 2016 and also served as a non-executive director of China Trends Holdings Limited (listed on the Stock Exchange, stock code: 8171) from June 2015 to February 2016. Mr. Ge served as an independent director of Shanghai Zhenhua Heavy Industry Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600320) from April 2015 to November 2016. Mr. Ge is an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. (listed on the Stock Exchange, stock code: 2318) since June 2015 and an independent non-executive director of Chong Sing Holdings FinTech Group Limited (formerly known as “Credit China Holdings Limited” and “Credit China FinTech Holdings Limited”) (listed on the Stock Exchange, stock code: 8207) since September 2014. Mr. Ge also served as an independent non-executive director of Shunfeng Photovoltaic International Limited (listed on the Stock Exchange, stock code: 1165) from January 2011 to February 2013. From July 1992 to July 1995, Mr. Ge served as a deputy general manager at Ernst & Young Hua Ming; from July 1995 to August 2012, Mr. Ge served as the chairman at Ernst & Young Hua Ming; from August 2012 to September 2014, Mr. Ge served as a partner of management committee at Ernst & Young Hua Ming LLP and subsequently from September 2014 to January 2016, Mr. Ge served as a senior consultant at Ernst & Young Hua Ming LLP. Mr. Ge is a certified public accountant of the Chinese Institute of Certified Public Accountants since October 1983, and also a senior accountant as certified by the Ministry of Finance of the PRC. Mr. Ge is a vice president of the Mergers & Acquisitions Association of All-China Federation of Industry and Commerce (全國工商聯併購公會), an overseas member of the Society of Chinese Accountants and Auditors (香港華人會計師公會), and a member of the Hong Kong Chinese Enterprises Association (香港中國企業協會). Mr. Ge obtained his master’s degree in western accounting from the Research Institute for Fiscal Science, Ministry of Finance of the PRC in July 1982.

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## DIRECTORS AND SENIOR MANAGEMENT

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### GENERAL

Save as disclosed above, each of our Directors has confirmed that:

- (i) he does not and has not held any other directorships in listed companies during the three years immediately prior to the date of this [REDACTED];
- (ii) there is no other information in respect of our Directors to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and
- (iii) there is no other material matter relating to our Directors that needs to be brought to the investors’ attention.

Save as Dr. Tian’s interest in the International Business as described in the section headed “—Disclosure under Rule 8.10(2) of the Listing Rules”, the Directors do not have any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business and would require disclosure under Rule 8.10 of the Listing Rules.

### SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

**Ms. HUANG Ying (黃纓)**, aged 49, is a senior vice president and the chief financial officer of our Group since April 2017. Ms. Huang joined our Group in April 2017 and is primarily responsible for the management of finance, tax, auditing and legal matters of our Group. Ms. Huang has over 20 years of work experience in financial management in the telecommunications industry, and has over ten years of experience in senior management roles. Prior to joining our Group, Ms. Huang successively served as the general finance department manager, the deputy general manager and other positions of the finance department of China Mobile Communications Corporation (中國移動通信集團公司) from July 2002 to March 2017. She successively served as a principal staff of the finance department at the general post office of the Ministry of Posts and Telecommunications and a deputy director at the corporate finance office of the planning and finance department of the State Post Bureau of the PRC and other positions from May 1995 to June 2002. In June 1990, Ms. Huang obtained a bachelor’s degree in economics from Beijing University of Posts and Telecommunications, where she subsequently obtained a master’s degree in economics in April 1995. She obtained an MBA degree from the University of Wisconsin in May 2006.

**Mr. CHEN Wu (陳武)**, aged 51, is a senior vice president and the general manager of the business development and government affairs center of our Group since February 2015. Mr. Chen joined our Group in April 2011 and is primarily responsible for the overall management of business development and government affairs. Mr. Chen has over 15 years of work experience in business development and dealing with government affairs, and has over ten years of experience in senior management roles. He served as the director of telecommunications division of Cisco Systems (China) Networking Technology Co., Ltd. from August 2007 to April 2011. Prior to that, he served as the deputy general manager of Mobile Navi (Beijing) Co., Ltd. (北京移動納維信息科技服務有限公司) from January 2005 to August 2007. Mr. Chen also served as the general manager of the international department of Beijing Honglian 95 Information Industries Company Limited (北京鴻聯九五信息產業有限公司) from August 2003 to December 2004. Mr. Chen obtained a bachelor’s degree in Japanese



## DIRECTORS AND SENIOR MANAGEMENT

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literature from Tianjin Foreign Studies University in July 1989, and further obtained an MBA degree from Nanyang Technological University, Singapore in June 2007.

**Mr. LIANG Bin (梁斌)**, aged 47, is a vice president and the general manager of the business division for China Mobile of our Group since January 2017 and he joined our Group in August 2002. He is primarily responsible for the overall operations management of the business division for China Mobile. Mr. Liang has over 20 years of experience in the IT and telecommunications industry, and has over 15 years of experience in middle and senior management roles. He served as the president of the business division for China Telecom, the chairman and the president of the cloud information division, the vice president of the China Unicom division, the deputy general manager of the cable division and the general manager of the wireless division of our Group from August 2002 to December 2016. He also served as the research and development manager of Jiangsu Hongtu High Technology Co., Ltd. (江蘇宏圖高科技股份有限公司) and UTStarcom Holdings Corp. from September 1998 to July 2002. Mr. Liang obtained a bachelor’s degree in communications engineering from Nanjing University of Posts and Telecommunications (formerly known as Nanjing College of Posts and Telecommunications) in July 1991.

**Ms. SUN Mingjie (孫明潔)**, aged 54, is a vice president and the general manager of the Group’s operations management center since November 2016 and she joined our Group in July 1996. She is primarily responsible for the overall management of the operations management center. Ms. Sun has over 20 years of work experience in the IT and telecommunications industry, and has over ten years of experience in operations management and middle and senior management roles. Ms. Sun served as the vice president and the senior director of the business management center, the director of engineering of the northern district of the business division for China Mobile and other various positions in our Group from July 1996 to October 2016. Ms. Sun obtained a bachelor’s degree in automatic control engineering from Harbin Shipbuilding Engineering Institute in July 1986 and a master’s degree in engineering majoring in automatic control from Harbin Institute of Technology in February 1989.

**Dr. OUYANG Ye (歐陽曄)**, aged 37, is a vice president and the chief technology officer of our Group and also is the chair of TC (Technology Committee) and the head of PRD (Product Research and Development) center of our Group since July 2018. Dr. Ouyang joined our Group in July 2018 and is primarily responsible for the research, development, and innovation of our Group’s products and technologies. Dr. Ouyang has over 10 years of distinguished experience of technology research, development, and management in telecommunication space. Dr. Ouyang has been a Verizon Associate Fellow in Verizon since March 2016 (a Fellow title is Verizon’s highest commendation for technical excellence and indicates Verizon’s top tier scientist). He is one of the only 48 Fellows in Verizon’s 170,000 employees globally. Between July 2013 and February 2016, he was a principal member of technical staff in Verizon. Dr. Ouyang led Verizon’s artificial intelligence and big data analytics team for innovative research and development work in the space of the forefront of cutting edge wireless technologies, artificial intelligence and data science. Dr. Ouyang received many awards, including the “AAEOY (Asian American Engineer of the Year 2017)” award, the “USA Telecom Innovation Award” by Fierce in 2016 and 2017, the “Most Innovative Telco Big Data Analytics Platform Award” by USA Telco Data Analytics Summit 2017, and the “Best Paper Award” in the 2017 Institute of Electrical and Electronics Engineers (“IEEE”) International Conference on Big Data etc. Dr. Ouyang has distinguished experience as a scientist, a researcher, an innovator, and a research and development manager. He serves various roles in many international telecommunication standard bodies and technology organizations, including the chair of industry relations of the IEEE 5G, the corporate

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## DIRECTORS AND SENIOR MANAGEMENT

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representative in the ETSI (European Telecommunications Standards Institute), the industry chair of IEEE Sarnoff, the workshop chair of IEEE ICNC (International Conference on Computing, Networking and Communication), the industry panel chair of IEEE ICII (International Conference on Industrial Internet), the chair of Executive Forum of IEEE Globecom, and the chair of the big data committee of IEEE WTS (Wireless Telecommunications Symposium) and IEEE WOCC (Wireless and Optical Communication Conference). Dr. Ouyang authored more than 20 academic papers, 30 patents, and five books or book chapters. Dr. Ouyang obtained a Ph.D. in Telecommunications from Stevens Institute of Technology in Hoboken, New Jersey, USA in February 2012, a Master of Science in System Engineering from Tufts University in Medford, Massachusetts, USA in August 2007, another Master of Science in Data Science from Columbia University in New York, New York, USA in May 2018, and a Bachelor of Engineering in Information Engineering from Southeast University in Nanjing, Jiangsu, PRC in June 2003.

### JOINT COMPANY SECRETARIES

**Ms. HE Qiongxiu (何瓊秀)**, aged 36, has been appointed as a joint company secretary of our Company effective upon [REDACTED]. Ms. He served as the head of the legal department of Visual China Group Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000681) from January 2016 to August 2016. She served as the legal director of 21Vianet Group, Inc. (listed on NASDAQ, NASDAQ: VNET) from September 2016 to May 2017. Ms. He joined our Group on June 6, 2017 as the legal director. Ms. He obtained a Master of Laws degree from China University of Political Science and Law in January 2013.

**Ms. YU Wing Sze (余詠詩)**, aged 35, has been appointed as a joint company secretary of our Company effective upon [REDACTED]. She is primarily responsible for the overall company secretarial matters of our Group.

Ms. Yu is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She holds a bachelor’s degree in professional accountancy from the Chinese University of Hong Kong. She has over 10 years of working experience in company secretarial profession. She is now working in TMF Hong Kong Limited, a leading global professional firm.

### BOARD COMMITTEES

We have established the following committees in our Board of Directors: an audit committee, a remuneration committee, a nomination committee and a strategy and investment committee. The committees operate in accordance with terms of reference established by our Board of Directors.

#### Audit Committee

We have established the audit committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members: two independent non-executive Directors, being GE Ming, who will serve as chairman of the committee, and ZHANG Ya-Qin, and one non-executive Director, being ZHANG Liyang. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control system of our Group.



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## DIRECTORS AND SENIOR MANAGEMENT

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### Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members: two independent non-executive Directors, being GAO Jack Qunyao, who will serve as chairman of the committee, and ZHANG Ya-Qin, and one non-executive Director, being XIN Yuesheng. The primary duties of the remuneration committee are to evaluate and make recommendations to the Board on the remuneration policy covering the Directors and senior management of our Group.

### Nomination Committee

We have established the nomination committee with written terms of reference in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules. The nomination committee consists of five members: two executive Directors, being TIAN Suning, who will serve as chairman of the committee, and GAO Nianshu, and three independent non-executive Directors, being GAO Jack Qunyao, ZHANG Ya-Qin and GE Ming. The primary duties of the nomination committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company.

### Strategy and Investment Committee

We have established a strategy and investment committee in order to monitor the strategy and business plans of our Company. The strategy and investment committee consists of four members: one non-executive Director, being XIN Yuesheng, who will serve as chairman of the committee, and three executive Directors, being TIAN Suning, DING Jian and GAO Nianshu. The primary duties of the strategy and investment committee are to review the execution of business plans and performance indicators of the Group, and to advise on and review budget proposals.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our directors and senior management receive compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives (including share-based compensation), housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. Certain Directors were also employees of our Group and our Group paid employee emoluments to them in their capacity as employees before and after their respective appointment of Directors in the three years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018. The aggregate amount of compensation (including fees, salaries, bonuses, share, share options, contributions to pension schemes, long-term incentives, housing and other allowances) and benefits in kind paid to the Directors for the three years ended December 31, 2015, 2016 and 2017 and three months ended March 31, 2018 were approximately RMB5.7 million, RMB13.9 million, RMB21.9 million and RMB7.0 million, respectively. The aggregate amount of compensation and benefits in kind paid to the five highest paid individual employees of our Group for the three years ended December 31, 2015, 2016 and 2017 and three months ended March 31, 2018 were approximately RMB21.2 million, RMB25.7 million, RMB55.8 million and RMB23.0 million, respectively.

Under the arrangements currently in force, we estimate the aggregate of the remuneration and benefits in kind (excluding share options and RSAs that may be granted to the Directors and

## DIRECTORS AND SENIOR MANAGEMENT

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discretionary bonus) payable to the Directors for the year ending December 31, 2018 to be RMB2.0 million. The executive Directors receive compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. Further details of the executive Director’s compensation are summarized in the section headed “Statutory and General Information—C. Further Information About Our Directors and Substantial Shareholders—2. Particulars of Service Contracts and Appointment Letters” in Appendix IV to this [REDACTED].

During the Track Record Period, no remuneration was paid by us nor receivable by Directors or the five highest remuneration individuals as incentives for joining or as rewards upon joining our Company. Mr. WU Jun (“**Mr. Wu**”) ceased to be the chief executive officer of the Company in July 2016 and the Director of the Company in May 2017. Mr. Wu was awarded a payment of approximately RMB1.3 million as compensation for loss of employment. Save as Mr. Wu, during the Track Record Period, no other compensation was paid by the Group to the Directors or any past directors of any members of the Group for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of the Group.

During the Track Record Period, none of our Directors has waived any remuneration. Save as disclosed above under the heading “Compensation of Directors and Senior Management”, during the Track Record Period, no other amounts shall be paid or payable by us or any of our subsidiaries to the Directors or the five highest remuneration individuals.

### COMPLIANCE ADVISOR

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances: before the publication of any regulatory announcement, circular or financial report; where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases; where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where our business activities, developments or results deviate from any forecast, estimate or other information in this [REDACTED]; and where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market or any other matters.

The term of the appointment shall commence on the [REDACTED] and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the [REDACTED] and such appointment may be subject to extension by mutual agreement.

### DISCLOSURE UNDER RULE 8.10(2) OF THE LISTING RULES

Apart from the businesses of our Group, Dr. Tian, chairman and an executive Director of our Company, is currently interested in entities operating software business serving telecom operators headquartered in Southeast Asia, Europe and other regions outside the PRC (the “**International Business**”). Dr. Tian, through PacificInfo, holds 100% equity interest in AsiaInfo International, which in turn, is the holding company of the International Business.

## DIRECTORS AND SENIOR MANAGEMENT

Set out below are the interests of Dr. Tian in the International Business which may potentially compete with our businesses for the purpose of Rule 8.10(2) of the Listing Rules as of the Latest Practicable Date.

| <u>Name of relevant company</u>      | <u>Nature of business</u>   |
|--------------------------------------|---|
| <b><i>International Business</i></b> |   |
| 1. AsiaInfo Malaysia                 | To carry on business in information technology and its related services   |
| 2. AsiaInfo Denmark                  | Information technology solutions and services including developing and delivering software and services as well as buying, selling and providing general consulting regarding software and hardware products and all activities deemed to be related thereto by the executive board |
| 3. AsiaInfo Thailand                 | Information technology solutions and services including developing and delivering software and services as well as buying, selling and providing general consulting regarding software and hardware products and all activities deemed to be related thereto by the executive board |

The International Business focuses on providing BSS/OSS solutions and other software solutions, including but not limited to, charging and billing, CRM and real-time business intelligence systems to telecom operators headquartered outside of the PRC. In contrast, the business of our Group focuses on telecom operators headquartered in the PRC. Our Company and the International Business have boards of directors that function independently of each other. Though Dr. Tian is the sole ultimate owner of International Business, Dr. Tian will not hold any directorship in the International Business upon [REDACTED]. Furthermore, the International Business has its own independent sales team for the international markets that function independently from our Group. Our business operated independently as an autonomous business unit during the Track Record Period, and our business will, upon [REDACTED], continue to be independent and separate from the International Business. Based on the above, we believe the International Business is clearly delineated from the business of our Group in light of the separate geographical focus in terms of customer base and our Group is able to carry on businesses independently from the International Business.

The International Business was loss-making during the Track Record Period, and was no longer consistent with our long term strategies to strengthen our market position in the PRC telecom and enterprise software market. As such, we decided to dispose of the International Business. The International Business was subsequently acquired by an entity controlled by Dr. Tian.

In addition, AsiaInfo International, being the holding company of the International Business, entered into a deed of non-competition with AsiaInfo Technologies HK on June 8, 2016, pursuant to which AsiaInfo International has undertaken to AsiaInfo Technologies HK that, within 10 years from the date of the deed of non-competition, it, and any subsidiaries and branches controlled by it, shall not, whether directly or indirectly, engage in any business in the PRC which competes with the telecommunication software business and any other business of the same nature engaged by AsiaInfo Technologies HK and any of its subsidiaries and branches. Pursuant to the deed of non-competition, the maximum liquidated damages liable by AsiaInfo International for breach of the deed of non-competition is US\$80 million.

Save as disclosed in this section of the [REDACTED], none of our Directors has interest in any business which competes or is likely to compete (either directly or indirectly) with our business and which is required to be disclosed under Rule 8.10(2).

## DIRECTORS AND SENIOR MANAGEMENT

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After the [REDACTED], our Company is required under Rule 8.10(2)(b) and (c) of the Listing Rules to (i) prominently disclose details as required under Rule 8.10(2)(a) of the Listing Rules of any such interests (including any interests acquired after the [REDACTED]) in our Company’s annual reports; and (ii) prominently disclose in our Company’s annual reports any change in details previously so disclosed in our Company’s annual reports or this [REDACTED]. In addition, our Directors are subject to fiduciary duties to our Company that require them to avoid actual and potential conflicts of interest and duty. Our Directors are also aware of their duty as directors not to profit themselves to the detriment of our Company.

Apart from the International Business held by Dr. Tian, our Controlling Shareholders are also interested in the E-public Service Business and Network Security Business which may potentially compete with our business for the purpose of Rule 8.10(1) of the Listing Rules as of the Latest Practicable Date, details of which are set out in the section headed “Relationship with the Controlling Shareholders” of this [REDACTED].

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Share Subdivision and the [REDACTED] and assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme, have interests or short positions in our Shares or underlying Shares, which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

| <u>Name</u>   | <u>Nature of Interest</u>                                   | <u>Number of Shares/<br/>underlying Shares</u> | <u>Approximate<br/>percentage of<br/>interest in our<br/>Company<br/>immediately<br/>after the<br/>[REDACTED]<sup>1</sup></u> |
|---|---|--|---|
| Skipper Investment Limited <sup>2</sup> . . . . .     | Beneficial owner (L)  | [REDACTED]                                     | [REDACTED]  |
| Power Joy (Cayman) Limited <sup>2</sup> . . . . .     | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CITIC Capital China Partners II L.P.<br>2 . . . . .   | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CCP II GP, Ltd. <sup>2</sup> . . . . .                | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CCP LTD <sup>2</sup> . . . . .                        | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CITIC Capital Partners Limited <sup>2</sup> . . . . . | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CITIC Capital Holdings Limited <sup>2</sup> . . . . . | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CP Management Holdings Limited <sup>2</sup> . . . . . | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| Mr. ZHANG Yichen <sup>2</sup> . . . . .               | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| Dr. Tian <sup>3</sup> . . . . .                       | Beneficial owner; interest in<br>controlled corporation (L) | [REDACTED]                                     | [REDACTED]  |
| CA Software Investment Limited <sup>4</sup> . . . . . | Beneficial owner (L)  | [REDACTED]                                     | [REDACTED]  |
| CPEChina Fund, L.P. <sup>4</sup> . . . . .            | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CITIC PE Associates, L.P. <sup>4</sup> . . . . .      | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CITIC PE Funds Limited <sup>4</sup> . . . . .         | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| CITICPE Holdings Limited <sup>4</sup> . . . . .       | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |
| Ellington Investment Pte. Ltd. <sup>5</sup> . . . . . | Beneficial owner (L)  | [REDACTED]                                     | [REDACTED]  |
| Bartley Investments Pte. Ltd. <sup>5</sup> . . . . .  | Interest in controlled<br>corporation (L)                   | [REDACTED]                                     | [REDACTED]  |

## SUBSTANTIAL SHAREHOLDERS

| Name  | Nature of Interest                     | Number of Shares/<br>underlying Shares | Approximate<br>percentage of<br>interest in our Company<br>immediately after the<br>[REDACTED] <sup>1</sup> |
|---|--|--|---|
| Tembusu Capital Pte. Ltd. <sup>5</sup> . . . . .      | Interest in controlled corporation (L) | [REDACTED]                             | [REDACTED]  |
| Temasek Holdings (Private) Limited <sup>5</sup> . . . | Interest in controlled corporation (L) | [REDACTED]                             | [REDACTED]  |
| Al Gharrafa Investment Company <sup>6</sup> . . . . . | Beneficial owner (L)                   | [REDACTED]                             | [REDACTED]  |
| Qatar Holding LLC <sup>6</sup> . . . . .              | Interest in controlled corporation (L) | [REDACTED]                             | [REDACTED]  |
| Qatar Investment Authority <sup>6</sup> . . . . .     | Interest in controlled corporation (L) | [REDACTED]                             | [REDACTED]  |
| InnoValue Capital Ltd. <sup>7</sup> . . . . .         | Beneficial owner (L)                   | [REDACTED]                             | [REDACTED]  |
| Ms. LIU Tzu-Lien <sup>7</sup> . . . . .               | Interest in controlled corporation (L) | [REDACTED]                             | [REDACTED]  |

*Notes:*

- Assuming the [REDACTED] is not exercised and without taking into account of any Shares that may be issued pursuant to the exercise of any outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of any outstanding RSAs granted under the [REDACTED] RSA Scheme.
- Each of Power Joy (Cayman) Limited (as the controlling shareholder of Skipper Investment Limited), CITIC Capital China Partners II L.P. (as the sole shareholder of Power Joy (Cayman) Limited), CCP II GP, Ltd. (as the general partner of CITIC Capital China Partners II L.P.), CCP LTD (as the general partner of CCP II GP, Ltd.), CITIC Capital Partners Limited (as the sole shareholder of CCP LTD), CITIC Capital Holdings Limited and CP Management Holdings Limited (which hold 51% and 49% shareholding of CITIC Capital Partners Limited, respectively) and Mr. ZHANG Yichen (as the sole shareholder of CP Management Holdings Limited) is deemed or taken to be interested in all the Shares which are beneficially owned by Skipper Investment Limited for the purpose of Part XV of the SFO.
- Dr. Tian is the sole shareholder of Info Addition Limited which in turns is the general partner of Info Addition Capital Limited Partnership. As such, Dr. Tian is deemed to be interested in the [REDACTED] Shares in which Info Addition Capital Limited Partnership is interested. Dr. Tian indirectly has full control over CBC Partners II L.P. which is the general partner of China Broadband Capital Partners II, L.P., which in turn is the sole shareholder of CBC TMT III Limited. As such, Dr. Tian is deemed or taken to be interested in [REDACTED] Shares beneficially owned by Info Addition Capital Limited Partnership, [REDACTED] Shares beneficially owned by Pacificinfo Limited and [REDACTED] Shares beneficially owned by CBC TMT III Limited for the purpose of Part XV of the SFO.
- Each of CPEChina Fund, L.P. (as the sole shareholder of CA Software Investment Limited), CITIC PE Associates, L.P. (as the general partner of CPEChina Fund, L.P.), CITIC PE Funds Limited (as general partner of CITIC PE Associates, L.P.) and CITICPE Holdings Limited (as the controlling shareholder of CITIC PE Funds Limited) is deemed or taken to be interested in all the Shares which are beneficially owned by CA Software Investment Limited for the purpose of Part XV of the SFO.
- Each of Bartley Investments Pte. Ltd. (as the sole shareholder of Ellington Investment Pte. Ltd.), Tembusu Capital Ptd. Ltd. (as the sole shareholder of Bartley Investments Pte. Ltd.) and Temasek Holdings (Private) Limited (as the sole shareholder of Tembusu Capital Ptd. Ltd.) is deemed or taken to be interested in all the Shares which are beneficially owned by Ellington Investment Pte. Ltd. for the purpose of Part XV of the SFO.
- Each of Qatar Holding LLC (as the sole shareholder of Al Gharrafa Investment Company) and Qatar Investment Authority (as the sole shareholder of Qatar Holding LLC) is deemed or taken to be interested in all the Shares which are beneficially owned by Al Gharrafa Investment Company for the purpose of Part XV of the SFO.
- Ms. LIU Tzu-Lien (as the sole shareholder of InnoValue Capital Ltd.) is deemed or taken to be interested in all the Shares which are beneficially owned by InnoValue Capital Ltd. for the purpose of Part XV of the SFO.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Share Subdivision and the [REDACTED] and assuming that the [REDACTED] is not exercised, have beneficial interests or short positions in our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent stage result in a change of control of our Company.



## SHARE CAPITAL

### AUTHORIZED AND ISSUED SHARES

The following is a description of the authorized and issued Shares of our Company as of the Latest Practicable Date and immediately following the completion of the Share Subdivision and the [REDACTED]:

#### Maximum Authorized Shares

| Shares          | Description  | Nominal value      | Total nominal value |
|-----------------|--|--------------------|---------------------|
| 100,000,000,000 | As of the Latest Practicable Date  | HK\$ 0.0000001     | HK\$10,000          |
| [REDACTED]      | Immediately following the completion of the Share Subdivision and the [REDACTED] | HK\$[0.0000000125] | HK\$10,000          |

#### Issued Shares

The following is a description of the issued Shares of our Company and the Shares to be issued by our Company as fully paid or credited as fully paid as of the Latest Practicable Date and immediately following the completion of the Share Subdivision and the [REDACTED]:

| Shares        | Description  | Nominal value      | Total nominal value |
|---------------|--|--------------------|---------------------|
| 78,515,523    | Shares in issue as of the Latest Practicable Date                  | HK\$ 0.0000001     | HK\$ 7.8515523      |
| [628,124,184] | Shares in issue following the Share Subdivision                    | HK\$[0.0000000125] | HK\$ [7.8515523]    |
| [REDACTED]    | Shares in issue following the Share Subdivision and the [REDACTED] | HK\$ [REDACTED]    | HK\$[REDACTED]      |

### ASSUMPTIONS

The above table does not take into account (a) any Shares which may be issued and/or sold pursuant to (i) the exercise of the [REDACTED], (ii) the exercise of the outstanding share options granted pursuant to the [REDACTED] Share Option Scheme and (iii) the vesting of the outstanding RSAs pursuant to the [REDACTED] RSA Scheme; and (b) any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKING

The Shares are ordinary shares in the issued shares of our Company and rank equally with all Shares upon [REDACTED] and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the [REDACTED].

### GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (i) 20% of the number of Shares in issue immediately following completion of the Share Subdivision, the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], the exercise of the outstanding share options under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs under the [REDACTED] RSA Scheme); and

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## SHARE CAPITAL

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- (ii) the number of Shares repurchased by our Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate to issue Shares will remain in effect until:

- (i) at the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which our Company’s next annual general meeting is required to be held under any applicable laws or the Articles; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting, whichever is the earliest.

Please see “Appendix IV—Statutory and General Information—A. Further Information About Our Group—3. Resolutions of our Shareholders” to this [REDACTED] for more information.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “[REDACTED]—Conditions of the [REDACTED]”, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares of not more than 10% of the number of Shares in issue immediately following the completion of the Share Subdivision and the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], the exercise of the outstanding share options under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs under the [REDACTED] RSA Scheme).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in “Appendix IV—Statutory and General Information—A. Further Information About Our Group—6. Repurchases of our own securities” to this [REDACTED].

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

See “Appendix IV—Statutory and General Information—A. Further Information About Our Group—3. Resolutions of Our Shareholders” to this [REDACTED] for more information of this general mandate.

### [REDACTED] SHARE OPTION SCHEME AND [REDACTED] RSA SCHEME

We have adopted the [REDACTED] Share Option Scheme and the [REDACTED] RSA Scheme on June 26, 2018. The principal terms of the [REDACTED] Share Option Scheme are summarized in the section headed “Statutory and General Information—D. [REDACTED] Share Option Scheme” in Appendix IV to this [REDACTED]. The principal terms of the [REDACTED] RSA Scheme are summarized in the section headed “Statutory and General Information—E. [REDACTED] RSA Scheme” in Appendix IV to this [REDACTED].

## FINANCIAL INFORMATION

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited combined financial information and the related notes set out in the accountants’ report and the condensed combined financial statements included as Appendix I and Appendix IA, respectively, to this [REDACTED]. Our combined financial statements have been prepared in accordance with HKFRS.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual future results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this [REDACTED].*

### OVERVIEW

We are the leader in China’s telecom software product and related service market and are actively expanding our presence in China’s non-telecom software product and related service market. We provide mission-critical, carrier-grade software products and services that enable Chinese telecom operators and large enterprises to improve business agility, efficiency and productivity and capture new revenue streams while optimizing costs, achieving greater success in the evolving digital era.

We have been strategically focusing on China’s telecom software product and related service market. Over the past two decades, we have developed an extensive portfolio of software products and services for telecom operators and accumulated deep insights into their IT and network environment and business and operational needs, and have become the largest telecom software product and related service provider in China, with a market share of 25.3%, as well as the largest BSS software product and related service provider in China, with a market share of 50.0%, as measured by revenue in 2017 according to Frost & Sullivan. As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had 176, 181, 193 and 199 telecom operator customers, respectively, with whom we negotiate and enter into contracts individually and directly. In 2015, 2016, 2017 and the three months ended March 31, 2018, revenue for the Software Business from telecom operators accounted for 87.0%, 88.9%, 93.9% and 96.6% of our total revenue from continuing operations, respectively.

As we continue to reinforce our leading position in China’s telecom software product and related service market, we have also tapped into and are actively expanding our presence in China’s fast-growing non-telecom software product and related service market to address large enterprises’ similar, fundamental needs in business transformation and digitalization. By serving both the telecom and non-telecom markets with shared resources, management, domain expertise and technology know-how, we are able to leverage synergies in winning new businesses and remain cost competitive.

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**Software Business.** During the Track Record Period, we derived a substantial majority of our revenue from the provision of software products and related services, as well as a variety of other services (collectively, the “**Software Business**”), including:

- **Software products and related services.** We derive a substantial majority of our revenue through the on-premise, project-based delivery model from:
  - (i) provision of software products and related deployment services. We deliver our software products and related deployment services pursuant to fixed-price project development contracts with our customers;
  - (ii) provision of ongoing operation and maintenance services for the launched systems deploying our software products;
- **Data-driven operation services.** We also provide data-driven operation services through data-driven operation platforms under a pay-as-a-result model. These services are either provided directly to telecom operators or in collaboration with telecom operators to their government and enterprise customers; and
- **Others.** We also derive revenue from rendering a variety of other services, including procurement of third-party hardware and software for some of our projects, system integration services, business consulting services and corporate trainings.

**Network Security Business.** During the Track Record Period, our results from continuing operations also included results of the Network Security Business. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, to accommodate our customers’ project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We recognized the contract prices of such project development contracts as revenue for the relevant periods based on their percentage of completion, and recorded the same amounts as cost of sales. In consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement, such as contract management, customer relationship management and liaison, we charged AsiaInfo Chengdu service fees which amounted to 2% of the Network Security Transitional Arrangement revenue recognized for the relevant periods, which were offset against cost of sales. We have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018. However, some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing.

Our business continued to grow during the Track Record Period. Our revenue from continuing operations increased from RMB4,764.9 million in 2015 to RMB4,856.0 million in 2016 and further to RMB4,948.3 million in 2017. Our revenue from continuing operations increased by 6.1% from RMB966.7 million for the three months ended March 31, 2017 to RMB1,026.0 million for the three months ended March 31, 2018. Our profit for the year from continuing operations was RMB309.8 million, RMB74.0 million and RMB335.2 million in 2015, 2016 and 2017, respectively. Our profit for the period from continuing operations was RMB76.9 million in the three months ended March 31, 2018, compared to loss for the period from continuing operations of RMB61.9 million in the three

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months ended March 31, 2017. During the Track Record Period, we generated all of our revenues from continuing operations in China.

Excluding the impact of share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] expenses and interest expenses for the Privatization Syndicated Loan, our adjusted profit for the year from continuing operations was RMB470.0 million, RMB253.1 million and RMB547.6 million in 2015, 2016 and 2017, respectively. Our adjusted profit for the period from continuing operations was RMB130.4 million in the three months ended March 31, 2018, compared to adjusted loss for the period from continuing operations in the three months ended March 31, 2017 of RMB28.0 million. See “—Non-HKFRS Measures” for more details.

Our revenue from continuing operations for the Software Business increased from RMB4,275.2 million in 2015 to RMB4,514.6 million in 2016, and further to RMB4,824.9 million in 2017. Our revenue from continuing operations for the Software Business increased by 10.5% from RMB924.5 million for the three months ended March 31, 2017 to RMB1,021.8 million for the three months ended March 31, 2018.

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are the principal factors that have affected and we expect will continue to affect our business, financial condition, results of operations and prospects:

- level of market demand for our products and services;
- our project execution and delivery and R&D capabilities;
- our ability to retain existing customers and acquire new customers;
- our operational efficiency;
- our ability to recruit and retain eligible employees; and
- seasonality.

#### Level of Market Demand for Our Products and Services

We currently derive a substantial majority of our revenue from Chinese telecom operators. In 2015, 2016, 2017 and the three months ended March 31, 2018, revenue for the Software Business from continuing operations from telecom operators accounted for 87.0%, 88.9%, 93.9% and 96.6% of our total revenue from continuing operations, respectively. We believe that telecom operators will continue to be our major customers and contribute a significant portion of our revenue.

Telecom operators’ ongoing digital transformation is expected to drive the increase in their spending in telecom software products and services, especially those under new business models such as data-driven operation services, or incorporating emerging technologies such as IoT and intelligent network technologies. As the leader in China’s telecom software product and related service market with a 25.3% market share as measured by revenue in 2017, and the leader in China’s BSS software product and related service market in China, with a 50.0% market share as measured by revenue in 2017, according to Frost & Sullivan, we believe that we are well positioned to embrace new business opportunities during telecom operators’ digital transformation. For example, as telecom operators continue to reinvent their business models to adapt to the digital world, we have in recent years provided comprehensive data-driven operation services to telecom operators and their government and



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enterprise customers under a pay-as-a-result model applying AI, machine learning and other emerging technologies, which are designed to help them increase sales, operational efficiency or customer value.

The demand for our software products and services is also affected by industry policies concerning the telecom industry in China. For example, favorable industry policies and initiatives implemented by the PRC government in recent years are expected to continue to raise telecom operators’ level of spending on software products and related services and drive the market demand for telecom software products and related services. Industry restructurings, such as China Unicom’s Mixed-Ownership Reform in 2017, may also cause telecom operators’ demand for software products and services to fluctuate. Driven by these policies and restructurings, China’s telecom software product and related service market is forecasted to experience a higher growth at a CAGR of 11.5% from RMB19.7 billion in 2018 to RMB30.5 billion in 2022.

As we continue to expand in China’s non-telecom software product and related service market (the market size of which is expected to grow at a CAGR of 11.1% from 2018 to 2022, reaching RMB435.3 billion by 2022) and actively explore new business opportunities in China’s data-driven operation service market (the market size of which is expected to grow at a CAGR of 14.7% from 2018 to 2022, reaching RMB138.3 billion in 2022), we expect the demand of non-telecom enterprises for software products and related services and the demand for data-driven operation services to have an impact on our results of operations as well.

### **Our Project Execution and Delivery and R&D Capabilities**

We derive most of our revenue from project-based project development contracts. Under these agreements, we develop software products and provide related deployment services at fixed prices, which are calculated based on our estimated costs for completing the projects, and according to specific delivery milestones. To ensure the smooth implementation of our projects within the fixed budget and time frame, it is imperative that we maintain industry-leading project execution and delivery and R&D capabilities. For example, we plan to further standardize our software development and project delivery process pursuant to the CMMI Level 5 software process methodologies, and continue to develop universal products, components and development and operation tools that can be rapidly rolled out across customers, which we believe will enable us to lower project execution and delivery and R&D related costs and reduce project lead time without compromising the quality, reliability and safety of our products and services.

Furthermore, the telecom and non-telecom software product and related service markets are characterized by rapidly changing technologies, evolving industry standards, frequent introductions of new products and services and enhancement to existing ones. Significant changes in customer needs and preferences, introduction of new products embodying new technologies and the emergence of new industry standards and practices could lead to rapid declines in demands for software products and services with older technologies, standards or delivery models or even render certain products and services obsolete, and may require us to incur substantial unanticipated research and development and other expenses. Accordingly, our financial condition, results of operations and future success depend, to a significant extent, on our ability to continuously strengthen our project execution and delivery capabilities as well as R&D capabilities to timely introduce new software products and services and enhance existing ones in response to the evolving business and operational needs of Chinese telecom operators and large enterprises, technical innovations and emerging market trends, and efficiently and cost-effectively deploy these products and services into customers’ overall IT and network



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environment. For example, we have developed sophisticated IoT industry applications in the areas of smart community, smart town, smart firefighting, smart travel and Internet of Vehicles.

### **Our Ability to Retain Existing Customers and Acquire New Customers**

Our results of operations are in part dependent on our ability to retain and increase the engagement and participation of our existing customers, primarily Chinese telecom operators. As of March 31, 2018, we had 199 telecom operators nationwide, including China Mobile, China Unicom, China Telecom and China Tower’s headquarters, provincial, municipal and specialized companies, and our customer retention rate for our telecom customers was higher than 99% in each of 2015, 2016, 2017 and the three months ended March 31, 2018. We plan to proactively communicate with our existing telecom operator customers and direct our R&D efforts and formulate product roadmap accordingly, in order to timely launch products and services that cater to their evolving business needs. As these telecom operator customers continue their digital transformation, we believe we are well positioned to cross-sell additional software products and services that help them reinvent their business models, range of services and end user experiences.

Our revenue growth is also dependent on our ability to acquire new customers, and we have implemented a number of initiatives in this regard. For example, we plan to continue to proactively work with telecom operators’ newly-established specialized companies and divisions and promote products and services that will accelerate their business growth. We have also been actively expanding our customer base in China’s non-telecom software product and related service market. For example, we plan to continue to promote some of our universal, carrier-grade products to non-telecom industries. In addition, we will continue to strengthen our marketing and promotion efforts for non-telecom industries and actively demonstrate our carrier-grade technologies and capabilities accumulated in the telecom market to non-telecom enterprises.

### **Our Operating Efficiency**

Our results of operations are directly affected by our ability to enhance operating efficiency and leverage scale of business. Accordingly, the success of our business depends, in part, on our ability to reduce our operating costs and expenses and improving our operating efficiency.

As our business further grows in scale, we have taken a number of initiatives in recent years to improve our operating efficiency. For example, to minimize duplication of work and achieve cost savings, we have organized our internal operations to centralize our R&D, quality assurance and various other activities, which used to be conducted within the relevant business divisions, at the company level. While we expect our expenses to continue to increase in line with our overall growth, we believe we will increasingly benefit from economies of scale as our business continues to grow.

### **Our Ability to Recruit and Retain Eligible Employees**

Our business and success depend in part on our ability to maintain a steady workforce. To remain competitive in the dynamically changing digital era, we endeavor to continue to invest in our people and expand our talent pool, and set up appropriate incentives to attract key talents. The contribution of staff costs to our cost of sales and expenses was approximately 64.1%, 57.4%, 66.0% and 71.0% in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively. As we typically enter into fixed-price contracts with our customers, if there is an increase in our staff costs, we may not be able to pass the rising staff costs onto our customers and our financial performance may be adversely affected.

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### Seasonality

We experience seasonal fluctuations in our results of operations. Our revenue, a vast majority of which is recognized based on our projects’ percentage of completion, is generally lower during the first quarter of the year, as the development process of our projects typically slows down during the first quarter of the year due to the Chinese New Year holidays. In addition, due to telecom operators’ project management schedules, we generally receive a larger number of orders from, and experience faster payment settlement process with, our telecom operator customers in the second half of the year.

### BASIS OF PRESENTATION

The Company was incorporated in the British Virgin Islands with limited liability. The ultimate holding company of our Group throughout the Track Record Period and up to the date of issuance of the Accountants’ Report and condensed combined financial statements is Skipper Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on August 24, 2012, which is controlled by CITIC Capital Entities. Pursuant to the Reorganization, the Company became the holding company of the companies now comprising our Group on April 30, 2018. See “History, Development and Reorganization” for more details. The Company and its subsidiaries have been under the common control of Holdco Cayman throughout the Track Record Period, and before and after the Reorganization, or since their respective dates of incorporation, where there is a shorter period. Accordingly, the financial information has been prepared using the principles of merger accounting as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period include the results, changes in equity and cash flows of the companies comprising our Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since their respective date of incorporation of the relevant companies now comprising our Group, where there is a shorter period. The combined statements of financial position of our Group as of December 31, 2015, 2016 and 2017 and March 31, 2018 have been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure has been in existence at those dates taking into account or the respective dates of incorporation of the relevant companies now comprising our Group, where applicable.

### SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial condition is based on our audited combined financial information prepared in accordance with HKFRS. Our results of operations and financial condition are sensitive to the accounting methods, assumptions and estimates used in the preparation of our combined financial information. We continuously evaluate these estimates and judgments based on historical experience and other factors, including expectations of future events, which we currently believe to be reasonable.

Our combined financial statements have been prepared in accordance with the following accounting policies which conform with HKFRSs issued by HKICPA. In addition, our combined financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Our combined financial statements have been prepared on historical cost basis, except for certain financial instruments which are measured at fair value, at the end of each reporting period, as

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explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, we take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in our combined financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

### **Basis of combination**

Our combined financial statements incorporate the financial statements of the entities comprising us. Control is achieved when we:

- have power over the investee;
- are exposed, or have rights, to variable returns from our involvement with the investee; and
- have the ability to use its power to affect its returns.

We reassess whether or not we control an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when we obtain control over the subsidiary and ceases when we lose control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the combined statements of profit or loss and other comprehensive (expense) income from the date we gain control until the date when we cease to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to our owners and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to our owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with our accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between our members are eliminated in full on combination.

### Revenue Recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

Revenue is measured at the fair value of the consideration received or receivable, net of business tax and value added tax (“VAT”).

We use a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

A contract asset represents our right to consideration in exchange for goods or services that we have transferred to a customer that is not yet unconditional. It is assessed for impairment on a regular and individual basis. In contrast, a receivable represents our unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. We principally earn revenue from provision of software products and related services as well as a variety of other services including:

- Software business
  - Software products and related services
  - Data-driven operation services
  - Others
- Network security business

Specifically, revenue is recognized in profit or loss as follows:

### *Software products and related services*

We are primarily engaged in (i) the provision of software products and related deployment services, and (ii) the provision of ongoing operation and maintenance services (“O&M services”).

#### (i) Software products and related deployment services

The software products and related deployment services include a comprehensive set of professional services, from demand analysis, project design and planning, software development and sourcing, system installation and launch to trial operation and acceptance, which are highly interrelated and significantly affected by other goods and services in the contract. Our Directors have assessed that our performance creates and enhances an asset that the customers control as we perform. Therefore, our Directors have satisfied that there is only one single performance obligation and the services are satisfied over time.

Accordingly, revenue from software products and related deployment services, which are generally under project based development contracts, is recognized based on the stage of completion of the contract which is determined as the proportion of the costs incurred for the works (i.e. subcontracting costs, material costs and direct staff costs incurred) performed to date relative to the estimated total costs to complete the satisfaction of these services and the margin of each project, to the extent that the amount can be measured reliably and its recovery is considered probable.

#### (ii) O&M services

Upon the launch of a system from the software products and related deployment services we provided, customers typically engage us to provide ongoing O&M services to ensure the stable functioning of the system.

Pursuant to the contracts of rendering related O&M services, the transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring O&M services to customers. Additionally, the O&M services typically meet the criterion where customers simultaneously receive and consume the benefits of our performance as we perform. The fact that another entity would not need to re-perform maintenance services for the service that we have provided

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to date also demonstrates that customers simultaneously receive and consume the benefits of our performance as we perform. Therefore, our Directors have satisfied that the performance obligation of rendering O&M services is satisfied over time which is recognized over the service period.

### *Data-driven operation services*

We provide data-driven operation services directly to telecom operators and/or in collaboration with telecom operators to the government and enterprise customers in relation to the rendering of comprehensive data operational analytics services to analyze customer behavior.

Our Directors have assessed that the data-driven operation service is one single performance obligation and the customers simultaneously receive and consume the benefits provided by our performance as we perform. Therefore, our Directors are satisfied that the services are satisfied over time.

### *Others*

We generate other revenues from sales of third-party hardware and software, system integration service, business consulting services and corporate trainings.

#### i. Sales of third-party hardware and software

Revenue is recognized at a point in time when the customer obtains control of the third-party hardware and software.

#### ii. Provision of services—system integration services, business consulting services and corporate trainings

We enter into system integration service agreements, consulting service agreements with telecom operators and large enterprises, the term of which generally ranges from two months to one year with a fixed contract price.

The performance obligation of provision of such services is satisfied over time. Revenue from rendering business consulting services and corporate trainings is recognized based on the services provided as the customers simultaneously receive and consume the service provided by us over the period. Revenue from rendering system integration services is recognized over time based on the stage of completion of the contract which is determined as the proportion of the cost incurred for the work performed to date relative to the estimated total costs to complete the satisfaction of these services and the margin of each project as our performance creates and enhances an asset that the customers control as we perform.

### *Network security related software products and services*

We were engaged in the providing network security related software products and services, which are similar to software products and related services, independently until November 2015 when we disposed of AsiaInfo Chengdu and transformed the business model to provide similar network security related products and services to customers through outsourcing the entire work to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”).



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Our Directors have assessed that our services create and enhance an asset that the customers control as we perform. Therefore, our Directors have satisfied that the services are satisfied over time. Accordingly, revenue is recognized based on the stage of completion of the contract.

Some of the service contracts contain variable consideration in the form of cash payment based on final service evaluation result (usually in the form of a service evaluation score provided by the customer based on which cash payment is calculated). We estimate the amount of consideration to which we will be entitled using the most likely amount. The estimation of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

### *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, except for short-term receivables where the recognition of interest would be immaterial.

### **Share-based payment arrangements**

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments in respect of share options/restricted stock units (“RSUs”) determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on our estimate of equity instruments that will eventually vest, with a corresponding increase in equity (other reserves). At the end of each reporting period, we revise our estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions.

The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

When share options are exercised or certified or when the RSUs are vested, the amount previously recognized in other reserves will continue to be held in other reserves.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will be transferred to retained profits.

### **Taxation**

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in our combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

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Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the combined statements of profit or loss and other comprehensive income and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of each reporting period, to recover or settle the carrying amount of our assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of our cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be

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impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit (or any of the cash-generating unit within group of cash-generating units in which we monitor goodwill), the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### **Impairment losses on tangible and intangible assets other than goodwill**

At the end of each reporting period, we review the carrying amounts of our tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### **Financial instruments**

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

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Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

### *Financial assets*

Our financial assets are classified into loans and receivables, AFS financial assets and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and note receivables, other receivables, other non-current assets, amounts due from related parties, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

### *AFS financial assets*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (1) loans and receivables, (2) held-to-maturity investments, or (3) financial assets at FVTPL.

Equity investments held by us that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measure. Dividends on AFS equity instruments are recognized in profit or loss when our right to receive the dividends is established. Other changes in carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified as profit or loss.

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AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

### *Derivative financial instruments*

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization.

Objective evidence of impairment for a portfolio of receivables could include our past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive (expense) income and accumulated under the heading of investment revaluation reserve.

### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognized at the proceeds received, net of direct issue costs.

#### *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

#### *Financial liabilities at amortized cost*

Financial liabilities including trade and notes payables, other payables, amounts due to related parties, bank borrowings are subsequently measured at amortized cost, using the effective interest method.

#### *Derecognition*

We derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If we neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred assets, we recognize our retained interest in the asset and an associated liability for amounts it may have to pay.



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On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

We derecognize financial liabilities when, and only when, our obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

In the application of our accounting policies, which are described in Note 4 to the Accountants’ Report included in Appendix I, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### **Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations, that we have made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in our combined financial statements.

#### ***Judgments in determining the performance obligations***

In making their judgments, we considered the detailed criteria for recognition of revenue set out in HKFRS 15. In determining performance obligations, our Directors consider whether the customer benefits from each service on its own and whether it is distinct in the context of the contract. Specifically, when concluding a contract has multiple performance obligations, our Directors consider that the individual performance obligation is regularly satisfied separately and the service is separately identifiable from other promises within the contract.

#### ***Judgments in determining the timing of satisfaction of performance obligations***

Note 4 to the Accountants’ Report included in Appendix I describes the revenue recognition basis to each of our revenue stream. The recognition of each of our revenue stream requires judgment by us in determining the timing of satisfaction of performance obligations.

In making their judgment, our Directors considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether we have satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with our customers.

For our software business and network security business, our Directors have assessed that our performance creates and enhances an asset that the customer controls as we perform. Therefore, our Directors have satisfied that the performance obligation is satisfied over time and recognized the revenue over the service period.

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For O&M services included in the software business, our Directors have determined that the customer simultaneously receives and consumes the benefits provided by our performance as we perform. Therefore, our Directors have satisfied that the performance obligation is satisfied over time and recognized the revenue over the service period.

### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

### ***Impairment of goodwill***

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. The recoverable amount determination of the cash-generating units throughout the Track Record Period is based on the present value calculation which requires us to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a further impairment loss may arise. As of December 31, 2015, 2016 and 2017, the carrying amount of goodwill was RMB1.9 billion, RMB1.9 billion and RMB1.9 billion, respectively. Details of the recoverable amount calculation are disclosed in Note 18 to the Accountants’ Report in Appendix I.

### ***Useful life of property, plant and equipment and intangible assets with definite useful lives***

Our management depreciates and amortizes the property, plant and equipment and intangible assets with definite useful lives on a straight-line basis over their estimated useful lives, respectively. The estimated useful lives reflect our Directors’ estimation of the periods that the future economic benefits can be derived from the usage of our property, plant and equipment and intangible assets with definite useful lives. If the estimated useful life did not reflect its actual useful life, additional depreciation and amortization may be required.

### ***Project-based development contracts***

Revenue from project-based development contracts is recognized under the percentage of completion method which requires estimation made by our management. Our Directors estimate the contract costs, outcome and expected cost to complete the contracts based on the budgets prepared for the contracts. Due to the nature of the activities, our Directors review and revise the estimates of both contract outcome and expected costs to complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to completion would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognized.

### **Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments**

Since January 1, 2018, we have applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the

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classification and measurement of financial assets and financial liabilities and (ii) expected credit losses (“ECL”) for financial assets.

We have applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as of January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as of January 1, 2018. The difference between carrying amounts as of December 31, 2017 and the carrying amounts as of January 1, 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information. See Note 3 to “Appendix IA—Condensed Combined Financial Statements” for more details.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS39 Financial Instruments: *Recognition and Measurement*.

### RESULTS OF OPERATIONS

The table below sets forth our combined statements of profit or loss and other comprehensive income, with line items both in absolute amounts and as percentages of our revenue from continuing operations for the periods indicated:

|  | For the year ended December 31, |        |             |        |             |        | For the three months ended March 31, |        |             |        |
|--|---------------------------------|--------|-------------|--------|-------------|--------|--------------------------------------|--------|-------------|--------|
|  | 2015                            |        | 2016        |        | 2017        |        | 2017                                 |        | 2018        |        |
|  | RMB'000                         | %      | RMB'000     | %      | RMB'000     | %      | RMB'000                              | %      | RMB'000     | %      |
|  |                                 |        |             |        |             |        | (unaudited)                          |        | (unaudited) |        |
| <b>Continuing operations:</b>  |                                 |        |             |        |             |        |                                      |        |             |        |
| Revenue  | 4,764,871                       | 100.0  | 4,855,953   | 100.0  | 4,948,324   | 100.0  | 966,733                              | 100.0  | 1,025,955   | 100.0  |
| Cost of sales  | (2,991,246)                     | (62.8) | (3,183,328) | (65.6) | (3,277,896) | (66.2) | (751,160)                            | (77.7) | (740,582)   | (72.2) |
| Gross profit   | 1,773,625                       | 37.2   | 1,672,625   | 34.4   | 1,670,428   | 33.8   | 215,573                              | 22.3   | 285,373     | 27.8   |
| Other income   | 92,258                          | 1.9    | 141,791     | 2.9    | 114,712     | 2.3    | 32,262                               | 3.3    | 22,082      | 2.2    |
| Other gains and losses   | (4,096)                         | (0.1)  | (45,228)    | (0.9)  | 68,828      | 1.4    | 9,097                                | 0.9    | 66,410      | 6.5    |
| Selling and marketing expenses   | (572,945)                       | (12.0) | (614,572)   | (12.7) | (481,831)   | (9.7)  | (94,908)                             | (9.8)  | (86,688)    | (8.4)  |
| Administrative expenses  | (255,754)                       | (5.4)  | (273,079)   | (5.6)  | (403,800)   | (8.2)  | (75,663)                             | (7.8)  | (87,487)    | (8.5)  |
| Research and development expenses  | (629,601)                       | (13.2) | (636,614)   | (13.1) | (430,246)   | (8.7)  | (127,585)                            | (13.2) | (87,752)    | (8.6)  |
| Share of results of associates   | —                               | —      | —           | —      | 258         | 0.0    | (231)                                | 0.0    | 443         | 0.0    |
| Share of results of a joint venture  | —                               | —      | (10,000)    | (0.2)  | —           | —      | —                                    | —      | —           | —      |
| Finance costs  | (6,075)                         | (0.1)  | (93,905)    | (1.9)  | (83,986)    | (1.7)  | (24,130)                             | (2.5)  | (19,537)    | (1.9)  |
| [REDACTED] expenses  | —                               | —      | —           | —      | (30,603)    | (0.6)  | —                                    | —      | (9,635)     | (0.9)  |
| Profit (loss) before tax   | 397,412                         | 8.3    | 141,018     | 2.9    | 423,760     | 8.6    | (65,585)                             | (6.8)  | 83,209      | 8.1    |
| Income tax (expenses) benefit  | (87,622)                        | (1.8)  | (66,998)    | (1.4)  | (88,584)    | (1.8)  | 3,704                                | 0.4    | (6,307)     | (0.6)  |
| Profit (loss) for the year/period from continuing operations   | 309,790                         | 6.5    | 74,020      | 1.5    | 335,176     | 6.8    | (61,881)                             | (6.4)  | 76,902      | 7.5    |
| <b>Discontinued operations:</b>  |                                 |        |             |        |             |        |                                      |        |             |        |
| Loss for the year/period from discontinued operations  | (420,462)                       | (8.8)  | (294,873)   | (6.0)  | (17,233)    | (0.4)  | (24,616)                             | (2.5)  | (1,279)     | (0.1)  |
| <b>Profit (loss) for the year/period</b>   | (110,672)                       | (2.3)  | (220,853)   | (4.5)  | 317,943     | 6.4    | (86,497)                             | (8.9)  | 75,623      | 7.4    |
| <b>Non-HKFRS Measures<sup>1</sup></b>  |                                 |        |             |        |             |        |                                      |        |             |        |
| <b>Adjusted EBITDA from continuing operations (unaudited)<sup>2</sup></b>                            | 624,114                         | 13.1   | 404,329     | 8.3    | 704,555     | 14.2   | (9,238)                              | (1.0)  | 151,442     | 14.8   |
| <b>Adjusted profit (loss) for the year/period from continuing operations (unaudited)<sup>3</sup></b> | 470,020                         | 9.9    | 253,104     | 5.2    | 547,630     | 11.1   | (27,968)                             | (2.9)  | 130,417     | 12.7   |

1. Adjusted EBITDA from continuing operations and adjusted profit (loss) for the year/period from continuing operations are not measures required by, or presented in accordance with, HKFRS. The use of these measures has limitations as an analytical tool, and you should not

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consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. See “—Non-HKFRS Measures” for more details.

2. We define adjusted EBITDA from continuing operations as EBITDA from continuing operations (which is profit (loss) before tax from continuing operations plus finance costs and depreciation and amortization expenses) adjusted by adding back share-based compensation and one-off [REDACTED] expenses.
3. We define adjusted profit (loss) for the year/period from continuing operations as profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] expenses and interest expenses for the Privatization Syndicated Loan.

## DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

### Continuing Operation

Our business is comprised of two business segments, the Software Business and the Network Security Business.

During the Track Record Period, our results from continuing operations also included results of the Network Security Business. Prior to late 2015, we carried out the Network Security Business in-house primarily through AsiaInfo Chengdu. In late 2015, we disposed of AsiaInfo Chengdu to AsiaInfo Cayman. After such disposal, in order to accommodate our customers’ project management schedules and business needs and as a transitional arrangement, we entered into project development contracts for the provision of network security software products and services with customers, and subsequently outsourced all tasks under these contracts at the same price to AsiaInfo Chengdu (the “**Network Security Transitional Arrangement**”). We recognized the contract prices of such project development contracts as revenue for the relevant periods based on their percentage of completion, and recorded the same amounts as cost of sales. In consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement, such as contract management, customer relationship management and liaison, we charged AsiaInfo Chengdu service fees which amounted to 2% of the Network Security Transitional Arrangement revenue recognized for the relevant periods, which were offset against cost of sales. See “Business—Our Products and Services—Others—Network Security Business” for more details.

### Revenue

We generate a substantial majority of revenue for the Software Business from provision of software products and related services. To a lesser extent, we generate revenue for the Software Business from rendering (i) data-driven operation services, and (ii) other services, including procurement of third-party hardware and software, system integration services, business consulting services and corporate trainings. Revenue for the Software Business accounted for 89.7%, 93.0%, 97.5% and 99.6% of our total revenue from continuing operations in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively.

During the Track Record Period, our revenue also included revenue for the Network Security Business. See “Connected Transactions—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement” and “Business—Our Products and Services—Others—Network Security Business” for more details.

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The following table sets forth the breakdown of our revenue from continuing operations by product and service category, both in absolute amounts and as percentages of our total revenue from continuing operations, for the periods indicated:

|   | For the year ended December 31, |              |                  |              |                  |              | For the three months ended March 31, |              |                  |              |
|---|---------------------------------|--------------|------------------|--------------|------------------|--------------|--------------------------------------|--------------|------------------|--------------|
|   | 2015                            |              | 2016             |              | 2017             |              | 2017                                 |              | 2018             |              |
|   | RMB'000                         | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                              | %            | RMB'000          | %            |
|   |                                 |              |                  |              |                  |              | (unaudited)                          |              | (unaudited)      |              |
| <b>Revenue from continuing operations</b> |                                 |              |                  |              |                  |              |                                      |              |                  |              |
| <b>Software Business:</b>                 |                                 |              |                  |              |                  |              |                                      |              |                  |              |
| Software products and related services    | 3,996,677                       | 83.9         | 4,170,779        | 85.9         | 4,541,482        | 91.8         | 875,401                              | 90.6         | 977,409          | 95.3         |
| Data-driven operation services            | 18,066                          | 0.4          | 31,383           | 0.6          | 41,745           | 0.8          | 4,203                                | 0.4          | 10,350           | 1.0          |
| Others <sup>1</sup>                       | 260,497                         | 5.4          | 312,483          | 6.5          | 241,652          | 4.9          | 44,888                               | 4.6          | 33,999           | 3.3          |
| <b>Total Software Business</b>            | <b>4,275,240</b>                | <b>89.7</b>  | <b>4,514,645</b> | <b>93.0</b>  | <b>4,824,879</b> | <b>97.5</b>  | <b>924,492</b>                       | <b>95.6</b>  | <b>1,021,758</b> | <b>99.6</b>  |
| <b>Network Security Business</b>          | <b>489,631</b>                  | <b>10.3</b>  | <b>341,308</b>   | <b>7.0</b>   | <b>123,445</b>   | <b>2.5</b>   | <b>42,241</b>                        | <b>4.4</b>   | <b>4,197</b>     | <b>0.4</b>   |
| <b>Total</b>                              | <b>4,764,871</b>                | <b>100.0</b> | <b>4,855,953</b> | <b>100.0</b> | <b>4,948,324</b> | <b>100.0</b> | <b>966,733</b>                       | <b>100.0</b> | <b>1,025,955</b> | <b>100.0</b> |

1. Includes revenue from (i) third-party hardware and software procurement, (ii) system integration services, (iii) business consulting services and (iv) corporate trainings.

We currently derive a substantial majority of our revenue from Chinese telecom operators. The following table sets forth the breakdown of our revenue from continuing operations by customer group, both in absolute amounts and as percentages of our total revenue from continuing operations, for the periods indicated:

|   | For the year ended December 31, |              |                  |              |                  |              | For the three months ended March 31, |              |                  |              |
|---|---------------------------------|--------------|------------------|--------------|------------------|--------------|--------------------------------------|--------------|------------------|--------------|
|   | 2015                            |              | 2016             |              | 2017             |              | 2017                                 |              | 2018             |              |
|   | RMB'000                         | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                              | %            | RMB'000          | %            |
|   |                                 |              |                  |              |                  |              | (unaudited)                          |              | (unaudited)      |              |
| <b>Revenue from continuing operations</b> |                                 |              |                  |              |                  |              |                                      |              |                  |              |
| <b>Software Business:</b>                 |                                 |              |                  |              |                  |              |                                      |              |                  |              |
| Telecom operators <sup>1</sup>            | 4,143,903                       | 87.0         | 4,314,101        | 88.9         | 4,644,559        | 93.9         | 897,960                              | 92.9         | 990,873          | 96.6         |
| Large enterprises                         | 53,133                          | 1.1          | 87,329           | 1.8          | 112,465          | 2.3          | 16,588                               | 1.7          | 24,124           | 2.3          |
| Small- to medium-sized enterprises        | 78,204                          | 1.6          | 113,215          | 2.3          | 67,855           | 1.3          | 9,944                                | 1.0          | 6,761            | 0.7          |
| <b>Total Software Business</b>            | <b>4,275,240</b>                | <b>89.7</b>  | <b>4,514,645</b> | <b>93.0</b>  | <b>4,824,879</b> | <b>97.5</b>  | <b>924,492</b>                       | <b>95.6</b>  | <b>1,021,758</b> | <b>99.6</b>  |
| <b>Network Security Business</b>          | <b>489,631</b>                  | <b>10.3</b>  | <b>341,308</b>   | <b>7.0</b>   | <b>123,445</b>   | <b>2.5</b>   | <b>42,241</b>                        | <b>4.4</b>   | <b>4,197</b>     | <b>0.4</b>   |
| <b>Total</b>                              | <b>4,764,871</b>                | <b>100.0</b> | <b>4,855,953</b> | <b>100.0</b> | <b>4,948,324</b> | <b>100.0</b> | <b>966,733</b>                       | <b>100.0</b> | <b>1,025,955</b> | <b>100.0</b> |

1. Including each of China Mobile, China Unicom, China Telecom and China Tower's: (i) headquarters, (ii) provincial companies, (iii) municipal companies, and (iv) specialized companies, with whom we negotiate and enter into contracts individually and directly.

### **Cost of Sales**

Cost of sales primarily consists of cost of sales for the Software Business, which primarily include: (i) staff costs, including employee salaries and benefits for our staff that are engaged in the execution and delivery of specific projects, (ii) project-related costs, including costs of outsourcing services, costs of third-party hardware and software, and other costs we incur in completing specific projects, (iii) rental costs for our office spaces, and (iv) other costs, which primarily consist of travel and entertainment expenses, communication expenses, depreciation of computers and other electric devices, amortization of intangible assets recorded as a result of the Linkage Merger completed in 2010 and share-based compensation expenses.

During the Track Record Period, cost of sales also included cost of sales for the Network Security Business. See “Connected Transactions—Partially Exempt Continuing Connected

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Transactions—2. Network Security Transitional Arrangement” and “Business—Our Products and Services—Others—Network Security Business” for more details.

The table below sets forth a breakdown of our cost of sales from continuing operations in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

|   | For the year ended December 31, |             |                  |             |                  |             | For the three months ended March 31, |             |                |             |
|---|---------------------------------|-------------|------------------|-------------|------------------|-------------|--------------------------------------|-------------|----------------|-------------|
|   | 2015                            |             | 2016             |             | 2017             |             | 2017                                 |             | 2018           |             |
|   | RMB'000                         | %           | RMB'000          | %           | RMB'000          | %           | RMB'000                              | %           | RMB'000        | %           |
|   |                                 |             |                  |             |                  |             | (unaudited)                          |             | (unaudited)    |             |
| <b>Cost of sales from continuing operations</b> |                                 |             |                  |             |                  |             |                                      |             |                |             |
| <b>Software Business:</b>                       |                                 |             |                  |             |                  |             |                                      |             |                |             |
| Staff costs                                     | 1,736,351                       | 36.6        | 1,713,452        | 35.3        | 2,132,299        | 43.1        | 519,528                              | 53.7        | 548,344        | 53.5        |
| Project-related costs                           | 696,947                         | 14.6        | 931,463          | 19.2        | 822,972          | 16.6        | 150,663                              | 15.6        | 153,791        | 15.0        |
| Rental costs                                    | 48,697                          | 1.0         | 45,977           | 0.9         | 70,291           | 1.4         | 10,706                               | 1.1         | 11,331         | 1.1         |
| Others  | 187,732                         | 3.9         | 157,964          | 3.3         | 131,358          | 2.7         | 28,866                               | 3.0         | 23,002         | 2.2         |
| <b>Total Software Business</b>                  | <b>2,669,727</b>                | <b>56.1</b> | <b>2,848,856</b> | <b>58.7</b> | <b>3,156,920</b> | <b>63.8</b> | <b>709,763</b>                       | <b>73.4</b> | <b>736,468</b> | <b>71.8</b> |
| <b>Network Security Business</b>                | <b>321,519</b>                  | <b>6.7</b>  | <b>334,472</b>   | <b>6.9</b>  | <b>120,976</b>   | <b>2.4</b>  | <b>41,397</b>                        | <b>4.3</b>  | <b>4,114</b>   | <b>0.4</b>  |
| <b>Total</b>                                    | <b>2,991,246</b>                | <b>62.8</b> | <b>3,183,328</b> | <b>65.6</b> | <b>3,277,896</b> | <b>66.2</b> | <b>751,160</b>                       | <b>77.7</b> | <b>740,582</b> | <b>72.2</b> |

### **Gross Profit and Gross Margin**

In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, our gross profit was RMB1,773.6 million, RMB1,672.6 million, RMB1,670.4 million, RMB215.6 million and RMB285.4 million, respectively, and our gross margin was 37.2%, 34.4%, 33.8%, 22.3% and 27.8%, respectively.

In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, our gross profit for the Software Business was RMB1,605.5 million, RMB1,665.8 million, RMB1,668.0 million, RMB214.7 million and RMB285.3 million, respectively, and our gross margin for the Software Business was 37.6%, 36.9%, 34.6%, 23.2% and 27.9%, respectively. Our gross margin decreased from 2016 to 2017 primarily because (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017, resulting in increased cost of sales in 2017, and (ii) we involved a larger number of staff in the execution and delivery of an increasing number of large-scale, complex projects in 2017. Our gross margin has improved in the three months ended March 31, 2018 compared to the same period in 2017. However, our gross margin is relatively lower in the first quarter of the year due to seasonality: our project development process tends to slow down, and our revenue is generally lower, during the first quarter of the year due to the Chinese New Year holidays.

### **Other Income**

Other income primarily comprises (i) government grants we receive from government authorities at various levels in relation to our business operations, (ii) income from the provision of management support services, including legal support, human resources, management system and network, daily administrations and other management services, to AsiaInfo Chengdu and other related parties, (iii) interest income from related parties, (iv) interest income from current bank accounts, including interest income from purchase of short-term wealth management products, and (v) interest income from available-for-sale investments.



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The following table sets forth a breakdown of our other income in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

|   | For the year ended December 31, |            |                |            |                |            | For the three months ended March 31, |            |               |            |  |  |
|---|---------------------------------|------------|----------------|------------|----------------|------------|--------------------------------------|------------|---------------|------------|--|--|
|   | 2015                            |            | 2016           |            | 2017           |            | 2017                                 |            | 2018          |            |  |  |
|   | RMB'000                         | %          | RMB'000        | %          | RMB'000        | %          | RMB'000                              | %          | RMB'000       | %          |  |  |
| <b>Other income</b>                                 |                                 |            |                |            |                |            | (unaudited)                          |            | (unaudited)   |            |  |  |
| Government grants                                   | 45,160                          | 0.9        | 49,180         | 1.0        | 44,098         | 0.9        | 20,150                               | 2.1        | 8,258         | 0.8        |  |  |
| Income from management support services             | 11,474                          | 0.2        | 52,181         | 1.1        | 29,179         | 0.6        | 3,184                                | 0.3        | 1,237         | 0.1        |  |  |
| Interest income from related parties                | 3,586                           | 0.1        | 19,649         | 0.4        | 19,001         | 0.3        | 4,806                                | 0.5        | 3,956         | 0.5        |  |  |
| Interest income from current bank accounts          | 17,293                          | 0.4        | 14,721         | 0.3        | 19,018         | 0.4        | 3,184                                | 0.3        | 7,594         | 0.7        |  |  |
| Interest income from available-for-sale investments | 14,503                          | 0.3        | 177            | 0.0        | —              | —          | —                                    | —          | —             | —          |  |  |
| Others  | 242                             | 0.0        | 5,883          | 0.1        | 3,416          | 0.1        | 938                                  | 0.1        | 1,037         | 0.1        |  |  |
| <b>Total</b>  | <b>92,258</b>                   | <b>1.9</b> | <b>141,791</b> | <b>2.9</b> | <b>114,712</b> | <b>2.3</b> | <b>32,262</b>                        | <b>3.3</b> | <b>22,082</b> | <b>2.2</b> |  |  |

### *Other Gains and Losses*

Other gains and losses primarily comprise of exchange gains/(loss) associated with fluctuations in exchange rate of the U.S. dollar against Renminbi, which was related to a US\$191.4 million syndicated loan denominated in U.S. dollars which was borrowed in connection with the Privatization and was transferred to our Group in December 2015 (the “**Privatization Syndicated Loan**”) as well as other U.S. dollar-denominated bank loans. To a lesser extent, other gains and losses also comprise impairment of assets, gain/(loss) on disposal of property, plant and equipment, gain on disposal of a subsidiary to a third party and gain from extinguishment of liabilities in relation to payables under certain project development contracts. We had other gains of RMB68.8 million and RMB66.4 million in 2017 and the three months ended March 31, 2018, respectively. We incurred other losses of RMB4.1 million and RMB45.2 million in 2015 and 2016, respectively.

|  | For the year ended December 31, |              |                 |              |               |            | For the three months ended March 31, |            |               |            |  |  |
|--|---------------------------------|--------------|-----------------|--------------|---------------|------------|--------------------------------------|------------|---------------|------------|--|--|
|  | 2015                            |              | 2016            |              | 2017          |            | 2017                                 |            | 2018          |            |  |  |
|  | RMB'000                         | %            | RMB'000         | %            | RMB'000       | %          | RMB'000                              | %          | RMB'000       | %          |  |  |
| Exchange (loss) gain, net                                | (3,561)                         | (0.1)        | (95,196)        | (2.0)        | 84,029        | 1.8        | 7,315                                | 0.7        | 66,149        | 6.4        |  |  |
| Impairment of assets                                     | (19,980)                        | (0.4)        | (2,196)         | 0.0          | (12,482)      | (0.3)      | (166)                                | 0.0        | (345)         | 0.0        |  |  |
| Gain (loss) on disposal of property, plant and equipment | 2,552                           | 0.1          | (4,238)         | (0.1)        | (5,548)       | (0.1)      | 265                                  | 0.0        | 131           | 0.0        |  |  |
| Gain on disposal of a subsidiary to a third party        | —                               | —            | 48,763          | 1.0          | —             | —          | —                                    | —          | —             | —          |  |  |
| Gain from extinguishment of liabilities                  | 10,398                          | 0.2          | 2,635           | 0.1          | 1,278         | 0.0        | —                                    | —          | —             | —          |  |  |
| Others   | 6,495                           | 0.1          | 5,004           | 0.1          | 1,551         | 0.0        | 1,683                                | 0.2        | 475           | 0.1        |  |  |
| <b>Total</b>   | <b>(4,096)</b>                  | <b>(0.1)</b> | <b>(45,228)</b> | <b>(0.9)</b> | <b>68,828</b> | <b>1.4</b> | <b>9,097</b>                         | <b>0.9</b> | <b>66,410</b> | <b>6.5</b> |  |  |

### *Selling and Marketing Expenses*

Selling and marketing expenses primarily consist of (i) salaries and benefits for our sales and marketing staff, (ii) travel and entertainment expenses for our sales and marketing staff, (iii) depreciation and amortization expenses, primarily including amortization of intangible assets

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recorded as a result of the Linkage Merger completed in 2010, and (iv) others, such as share-based compensation expenses for our sales and marketing staff, rental expenses, office supply expenses and meeting expenses. Our selling and marketing expenses have decreased since 2016 both in absolute amounts and as a percentage of total revenue, primarily attributable to (i) a decrease in the number of our sales and marketing staff in 2017 as we further streamlined our sales and marketing activities, and (ii) various cost saving initiatives we implemented in 2017, such as further increased centralization of our procurement activities.

The following table sets forth a breakdown of our selling and marketing expenses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

|   | For the year ended December 31, |             |                |             |                |            | For the three months ended March 31, |            |               |            |
|---|---------------------------------|-------------|----------------|-------------|----------------|------------|--------------------------------------|------------|---------------|------------|
|   | 2015                            |             | 2016           |             | 2017           |            | 2017                                 |            | 2018          |            |
|   | RMB'000                         | %           | RMB'000        | %           | RMB'000        | %          | RMB'000                              | %          | RMB'000       | %          |
|   |                                 |             |                |             |                |            | (unaudited)                          |            | (unaudited)   |            |
| <b>Selling and marketing expenses:</b>                |                                 |             |                |             |                |            |                                      |            |               |            |
| Staff salaries and benefits . . . .                   | 286,935                         | 6.0         | 335,187        | 6.9         | 253,400        | 5.1        | 55,071                               | 5.7        | 48,767        | 4.7        |
| Travel and entertainment . . . . .                    | 139,091                         | 2.9         | 148,455        | 3.1         | 104,877        | 2.1        | 19,511                               | 2.0        | 18,065        | 1.7        |
| Depreciation and amortization . . . . .               | 89,353                          | 1.9         | 72,973         | 1.5         | 54,053         | 1.1        | 13,609                               | 1.4        | 8,895         | 0.9        |
| Others . . . . .                                      | 57,566                          | 1.2         | 57,957         | 1.2         | 69,501         | 1.4        | 6,717                                | 0.7        | 10,961        | 1.1        |
| <b>Total selling and marketing expenses . . . . .</b> | <b>572,945</b>                  | <b>12.0</b> | <b>614,572</b> | <b>12.7</b> | <b>481,831</b> | <b>9.7</b> | <b>94,908</b>                        | <b>9.8</b> | <b>86,688</b> | <b>8.4</b> |

### *Administrative Expenses*

Administrative expenses primarily include (i) salaries and benefits for our management and administrative staff, (ii) professional service fees, (iii) share-based compensation expenses for our management and administrative staff, and (iv) others, including depreciation and amortization expenses, rental expenses, travel and entertainment expenses, office supply expenses and other miscellaneous items.

The following table sets forth a breakdown of our administrative expenses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

|  | For the year ended December 31, |            |                |            |                |            | For the three months ended March 31, |            |               |            |
|--|---------------------------------|------------|----------------|------------|----------------|------------|--------------------------------------|------------|---------------|------------|
|  | 2015                            |            | 2016           |            | 2017           |            | 2017                                 |            | 2018          |            |
|  | RMB'000                         | %          | RMB'000        | %          | RMB'000        | %          | RMB'000                              | %          | RMB'000       | %          |
|  |                                 |            |                |            |                |            | (unaudited)                          |            | (unaudited)   |            |
| <b>Administrative expenses:</b>                |                                 |            |                |            |                |            |                                      |            |               |            |
| Staff salaries and benefits . . . .            | 146,036                         | 3.1        | 180,098        | 3.7        | 299,235        | 6.1        | 53,606                               | 5.5        | 41,612        | 4.0        |
| Professional service fees . . . . .            | 70,367                          | 1.5        | 39,515         | 0.8        | 25,063         | 0.5        | 138                                  | 0.0        | 1,885         | 0.2        |
| Share-based compensation . . . . .             | 5,307                           | 0.1        | 13,997         | 0.3        | 36,710         | 0.7        | 1,841                                | 0.2        | 16,587        | 1.6        |
| Others . . . . .                               | 34,044                          | 0.7        | 39,469         | 0.8        | 42,792         | 0.9        | 20,078                               | 2.1        | 27,403        | 2.7        |
| <b>Total administrative expenses . . . . .</b> | <b>255,754</b>                  | <b>5.4</b> | <b>273,079</b> | <b>5.6</b> | <b>403,800</b> | <b>8.2</b> | <b>75,663</b>                        | <b>7.8</b> | <b>87,487</b> | <b>8.5</b> |

### **Research and Development Expenses**

Research and development expenses primarily include (i) salaries and benefits for our research and development staff who are focused on centralized R&D of core products that can be shared among

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our business divisions, (ii) travel and entertainment expenses, (iii) professional service fees, and (iv) others, including depreciation and amortization expenses, share-based compensation expenses for our research and development staff, office supply expenses and other miscellaneous items. We incurred research and development expenses of RMB629.6 million, RMB636.6 million, RMB430.2 million and RMB87.8 million in 2015, 2016, 2017 and the three months ended March 31, 2018, respectively, accounting for 13.2%, 13.1%, 8.7% and 8.6% of our total revenue from continuing operations, respectively. The decrease in our research and development expenses from 2016 to 2017 was primarily due to our reduced R&D activities: in 2017, we further streamlined our R&D activities to focus on R&D activities primarily in the areas of data-driven operation services and intelligent networks, which were consistent with our growth strategies, and discontinued certain R&D activities which were no longer aligned with our growth strategies. We expect to continue to incur research and development expenses in the areas of data-driven operation services, IoT, intelligent networks, as well as other areas as our R&D strategy evolves.

The following table sets forth a breakdown of our research and development expenses in absolute amounts and as a percentage of our total revenue from continuing operations for the periods indicated:

|  | For the year ended December 31, |             |                |             |                |            | For the three months ended March 31, |             |               |            |  |
|--|---------------------------------|-------------|----------------|-------------|----------------|------------|--------------------------------------|-------------|---------------|------------|--|
|  | 2015                            |             | 2016           |             | 2017           |            | 2017                                 |             | 2018          |            |  |
|  | RMB'000                         | %           | RMB'000        | %           | RMB'000        | %          | RMB'000                              | %           | RMB'000       | %          |  |
| <b>Research and development expenses:</b>              |                                 |             |                |             |                |            |                                      |             |               |            |  |
| Staff salaries and benefits . . . .                    | 513,526                         | 10.8        | 473,069        | 9.7         | 368,964        | 7.5        | 112,148                              | 11.6        | 79,544        | 7.8        |  |
| Travel and entertainment . . . .                       | 49,388                          | 1.0         | 56,837         | 1.2         | 23,851         | 0.5        | 6,504                                | 0.7         | 3,028         | 0.3        |  |
| Professional service fee . . . . .                     | 22,472                          | 0.5         | 68,868         | 1.4         | 8,404          | 0.2        | 1,486                                | 0.2         | 776           | 0.1        |  |
| Others . . . . .                                       | 44,215                          | 0.9         | 37,840         | 0.8         | 29,027         | 0.5        | 7,447                                | 0.7         | 4,404         | 0.4        |  |
| <b>Total research and development expenses . . . .</b> | <b>629,601</b>                  | <b>13.2</b> | <b>636,614</b> | <b>13.1</b> | <b>430,246</b> | <b>8.7</b> | <b>127,585</b>                       | <b>13.2</b> | <b>87,752</b> | <b>8.6</b> |  |

### *Finance Costs*

Finance costs consist of interest expenses on bank borrowings, primarily the Privatization Syndicated Loan which was transferred to our Group in December 2015. See Note 9 to the Accountants' Report included in Appendix I and Note 7 to the condensed combined financial statements included in Appendix IA to this [REDACTED] for further details of our bank borrowings.

### *Income Tax (Expenses) Benefit*

The following table sets forth a breakdown of our income tax (expenses) benefit for the periods indicated:

|  | For the year ended December 31, |               |               | For the three months ended March 31, |              |
|--|---------------------------------|---------------|---------------|--------------------------------------|--------------|
|  | 2015                            | 2016          | 2017          | 2017                                 | 2018         |
|  | RMB'000                         |               |               | (unaudited)                          | (unaudited)  |
| <b>Current tax:</b>                                  |                                 |               |               |                                      |              |
| Hong Kong profits tax                                |                                 |               |               |                                      |              |
| —Current year . . . . .                              | 368                             | 126           | 802           | 21                                   | 760          |
| PRC enterprise income tax                            |                                 |               |               |                                      |              |
| —Current year . . . . .                              | 127,796                         | 106,403       | 92,440        | 33,871                               | 18,360       |
| Deferred tax . . . . .                               | (40,542)                        | (39,531)      | (4,658)       | (37,596)                             | (12,813)     |
| <b>Total income tax (expenses) benefit . . . . .</b> | <b>87,622</b>                   | <b>66,998</b> | <b>88,584</b> | <b>(3,704)</b>                       | <b>6,307</b> |

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Under the PRC EIT Law and Implementation Regulation of the EIT Law, a uniform 25% EIT rate is generally applied, except where a specific preferential rate applies. AsiaInfo China and AsiaInfo Nanjing were recognized as Key Software Enterprises within National Programming Layout (國家規劃佈局內重點軟件企業) and enjoyed a preferential EIT rate of 10% during the Track Record Period. See Note 10 to “Appendix I—Accountants’ Report” and Note 8 to “Appendix IA— Condensed Combined Financial Statements” to this [REDACTED] for more details.

Our subsidiaries located in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the Track Record Period.

Taxation occurred in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Our effective tax rates were 22.0%, 47.5% and 20.9% for 2015, 2016 and 2017, respectively. Our effective tax rate was higher in 2016 primarily because the losses of some of our subsidiaries were not recognized for tax purposes.

We have paid all relevant taxes in accordance with tax regulations and do not have any disputes or unresolved tax issues with the relevant tax authorities.

### Discontinued Operations

During the Track Record Period, we operated software business serving telecom operators headquartered in South East Asia, Europe and other regions outside the PRC (the “**International Business**”), which was disposed of in June 2016. The International Business was subsequently acquired by an entity controlled by Dr. Tian. We recorded the results of the International Business as discontinued operations during the Track Record Period. Separately, we acquired AsiaInfo Big Data, which was mainly engaged in the provision of big data software products and services to telecom operators, in December 2017 (the “**Acquisition**”). AsiaInfo Big Data was also engaged in the provision of software products and services that enable government bodies and public institutions to provide e-public services, such as smart city and e-government services (the “**E-public Service Business**”). The major entities comprising the E-public Service Business had been disposed of prior to the completion of the Acquisition. The few remaining contracts of E-public Service Business have been completed as of March 31, 2018. Given that our combined financial statements are required to present the results, cash flows and financial position of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, we also recorded the results of the E-public Service Business as discontinued operations during the Track Record Period. See “Relationship with the Controlling Shareholders”, Note 12 to “Appendix I—Accountants’ Report” and Note 10 to “Appendix IA— Condensed Combined Financial Statement” for more details.

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The following table sets forth the results of discontinued International Business during the periods indicated:

|                                   | For the year ended<br>December 31, |           |
|-----------------------------------|------------------------------------|-----------|
|                                   | 2015                               | 2016      |
| RMB'000                           |                                    |           |
| <b>Discontinued operations:</b>   |                                    |           |
| Revenue                           | 86,163                             | 23,314    |
| Cost of sales                     | (283,515)                          | (125,266) |
| Gross loss                        | (197,352)                          | (101,952) |
| Other income                      | —                                  | 40        |
| Other gains and losses            | 9,102                              | (2,184)   |
| Selling and marketing expenses    | (47,800)                           | (15,212)  |
| Administrative expenses           | (2,637)                            | (1,378)   |
| Research and development expenses | (123,664)                          | (71,962)  |
| Loss before tax                   | (362,351)                          | (192,648) |
| Income tax expenses               | (2,636)                            | (1,547)   |
| Loss for the year                 | (364,987)                          | (194,195) |

The following table sets forth the results of discontinued E-public Service Business during the periods indicated:

|                                    | For the year ended December 31, |          |             | For the three months ended March 31, |                   |
|------------------------------------|---------------------------------|----------|-------------|--------------------------------------|-------------------|
|                                    | 2015                            | 2016     | 2017        | 2017                                 | 2018 <sup>1</sup> |
| RMB'000                            |                                 |          |             |                                      |                   |
|                                    |                                 |          | (unaudited) | (unaudited)                          |                   |
| <b>Discontinued operations:</b>    |                                 |          |             |                                      |                   |
| Revenue                            | 45,439                          | 91,464   | 23,197      | 4,558                                | 986               |
| Cost of sales                      | (74,872)                        | (68,021) | (37,970)    | (8,300)                              | (2,265)           |
| Gross (loss) profit                | (29,433)                        | 23,443   | (14,773)    | (3,742)                              | (1,279)           |
| Other income                       | 25                              | 73       | 40          | (2,805)                              | —                 |
| Other gains and losses             | (3,175)                         | (5,515)  | 35,569      | (2,621)                              | —                 |
| Selling and marketing expenses     | (15,424)                        | (56,397) | (23,160)    | (8,920)                              | —                 |
| Administrative expenses            | (1,577)                         | (11,192) | (3,439)     | (1,187)                              | —                 |
| Research and development expenses  | (16,001)                        | (31,970) | (9,701)     | (7,445)                              | —                 |
| Share of results of associates     | 1,275                           | (1,321)  | (1,573)     | 981                                  | —                 |
| Share of results of joint ventures | (1,628)                         | (5,191)  | (646)       | 1,123                                | —                 |
| Loss before tax                    | (65,938)                        | (88,070) | (17,683)    | (24,616)                             | (1,279)           |
| Income tax expenses                | (1)                             | (1,014)  | —           | —                                    | —                 |
| Loss for the year/period           | (65,939)                        | (89,084) | (17,683)    | (24,616)                             | (1,279)           |

<sup>1</sup> The major entities comprising the E-public Service Business had been disposed of prior to the completion of the Acquisition. The few remaining contracts of the E-public Service Business have been completely terminated as of March 31, 2018.

## NON-HKFRS MEASURES

To supplement our combined financial statements which are presented in accordance with HKFRS, we also use two non-HKFRS measures, including adjusted EBITDA from continuing operations and adjusted profit (loss) for the year/period from continuing operations, as additional financial measures, which are not required by, or presented in accordance with, HKFRS. We believe that these non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not

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consider to be indicative of our operating performance. We believe that these measures provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as they help our management. However, our presentation of the adjusted EBITDA from continuing operations and adjusted profit (loss) for the year/period from continuing operations may not be comparable to similarly titled measures presented by other companies. The use of these non-HKFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted EBITDA from continuing operations as EBITDA from continuing operations (which is profit (loss) before tax from continuing operations plus finance costs and depreciation and amortization expenses) adjusted by adding back share-based compensation and one-off [REDACTED] expenses. We define adjusted profit (loss) for the year/period from continuing operations as profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] expenses and interest expenses for the Privatization Syndicated Loan. The following tables reconcile our adjusted EBITDA from continuing operations and adjusted profit (loss) for the year/period from continuing operations for the periods presented to the most directly comparable financial measures calculated and presented in accordance with HKFRS, which are profit (loss) before tax and profit (loss) for the year/period from continuing operations:

|  | For the year ended December 31, |                |                | For the three months ended March 31, |                |
|--|---------------------------------|----------------|----------------|--------------------------------------|----------------|
|  | 2015                            | 2016           | 2017           | 2017                                 | 2018           |
|  | RMB'000                         |                |                | (unaudited) (unaudited)              |                |
| <b>Reconciliation of profit (loss) before tax from continuing operations to EBITDA from continuing operations and adjusted EBITDA from continuing operations</b> |                                 |                |                |                                      |                |
| Profit (loss) before tax from continuing operations . . . . .  | 397,412                         | 141,018        | 423,760        | (65,585)                             | 83,209         |
| Add:   |                                 |                |                |                                      |                |
| Finance costs . . . . .  | 6,075                           | 93,905         | 83,986         | 24,130                               | 19,537         |
| Depreciation and amortization expenses . . . . .   | 195,897                         | 133,731        | 92,717         | 24,752                               | 16,913         |
| EBITDA from continuing operations . . . . .  | 599,384                         | 368,654        | 600,463        | (16,703)                             | 119,659        |
| Add:   |                                 |                |                |                                      |                |
| Share-based compensation <sup>1</sup> . . . . .  | 24,730                          | 35,675         | 73,489         | 7,465                                | 22,148         |
| One-off [REDACTED] expenses . . . . .  | —                               | —              | 30,603         | —                                    | 9,635          |
| <b>Adjusted EBITDA from continuing operations . . . . .</b>  | <b>624,114</b>                  | <b>404,329</b> | <b>704,555</b> | <b>(9,238)</b>                       | <b>151,442</b> |



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|  | For the year ended December 31, |                |                | For the three months ended March 31, |                |
|--|---------------------------------|----------------|----------------|--------------------------------------|----------------|
|  | 2015                            | 2016           | 2017           | 2017                                 | 2018           |
|  | RMB'000                         |                |                | (unaudited) (unaudited)              |                |
| <b>Reconciliation of profit (loss) for the year/period from continuing operations to adjusted profit (loss) for the year/period from continuing operations</b> |                                 |                |                |                                      |                |
| Profit (loss) for the year/period from continuing operations .....   | 309,790                         | 74,020         | 335,176        | (61,881)                             | 76,902         |
| Add:   |                                 |                |                |                                      |                |
| Share-based compensation <sup>1</sup> .....  | 24,730                          | 35,675         | 73,489         | 7,465                                | 22,148         |
| Amortization of intangible assets resulting from acquisitions .....  | 135,382                         | 93,991         | 52,331         | 13,083                               | 8,574          |
| One-off [REDACTED] expenses .....  | —                               | —              | 30,603         | —                                    | 9,635          |
| Interest expenses for the Privatization Syndicated Loan <sup>2</sup> .....   | 118                             | 49,418         | 56,031         | 13,365                               | 13,158         |
| <b>Adjusted profit (loss) for the year/period from continuing operations .....</b>   | <b>470,020</b>                  | <b>253,104</b> | <b>547,630</b> | <b>(27,968)</b>                      | <b>130,417</b> |

1. Share-based compensation incurred during the Track Record Period was in connection with share options and RSAs granted under the Previous Stock Incentive Plan adopted by Holdco Cayman.
2. We plan to repay a portion of the Privatization Syndicated Loan using [REDACTED] from the [REDACTED], and expect the related interest expenses to be reduced and the relevant portion of the pledged bank deposits securing such loan to be released afterwards.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

#### *Revenue*

Revenue increased by 6.1% from RMB966.7 million in the three months ended March 31, 2017 to RMB1,026.0 million in the three months ended March 31, 2018. This increase was primarily attributable to a 10.5% increase in revenue for the Software Business.

#### *Software Business*

Revenue for the Software Business increased by 10.5% from RMB924.5 million in the three months ended March 31, 2017 to RMB1,021.8 million in the three months ended March 31, 2018, primarily attributable to an increase in revenue from software products and related services, and partially offset by a decrease in other revenues.

Revenue for the Software Business derived from the provision of software products and related services increased by 11.7% from RMB875.4 million in the three months ended March 31, 2017 to RMB977.4 million in the three months ended March 31, 2018. This increase was primarily due to a 11.4% increase in revenue from telecom operators, from RMB852.4 million in the three months ended March 31, 2017 to RMB949.8 million in the three months ended March 31, 2018, which was primarily a result of (i) increased demand from existing telecom operator customers, primarily driven by continuous system upgrade and expansion and increase in popularity of our big data products, and (ii) increase in the number of our telecom operator customers. Revenue for the Software Business derived from the provision of software products and related services as a percentage of total revenue was 90.6% and 95.3% in the three months ended March 31, 2017 and 2018, respectively.

Revenue for the Software Business derived from the provision of data-driven operation services increased by 146.3% from RMB4.2 million in the three months ended March 31, 2017 to RMB10.4

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million in the three months ended March 31, 2018, primarily due to increased demand from telecom operator customers. Revenue for the Software Business derived from the provision of data-driven operation services as a percentage of total revenue was 0.4% and 1.0% in the three months ended March 31, 2017 and 2018, respectively.

Other revenue for the Software Business decreased by 24.3% from RMB44.9 million in the three months ended March 31, 2017 to RMB34.0 million in the three months ended March 31, 2018, primarily due to a decrease in customer demand for our procurement of third-party hardware and software.

### *Network Security Business*

Revenue for the Network Security Business decreased by 90.1% from RMB42.2 million in the three months ended March 31, 2017 to RMB4.2 million in the three months ended March 31, 2018, as we have ceased to enter into any new contract under the Network Security Transitional Arrangement starting 2018, yet some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing.

### *Cost of sales*

Cost of sales decreased by 1.4% from RMB751.2 million in the three months ended March 31, 2017 to RMB740.6 million in the three months ended March 31, 2018. The decrease was primarily due to decreased cost of sales for the Network Security Business.

### *Software Business*

Cost of sales for the Software Business increased by 3.8% from RMB709.8 million in the three months ended March 31, 2017 to RMB736.5 million in the three months ended March 31, 2018. The increase was primarily attributable to an increase in staff costs, which was in line with the continued growth of our business. The increase in cost of sales for the Software Business was partially offset by a decrease in other costs, primarily attributable to various cost saving initiatives we implemented.

### *Network Security Business*

Cost of sales for the Network Security Business decreased by 90.1% from RMB41.4 million in the three months ended March 31, 2017 to RMB4.1 million in the three months ended March 31, 2018, as we have ceased to enter into any new contract with respect to the Network Security Transitional Arrangement starting 2018, yet some of the existing project development contracts under the Network Security Transitional Arrangement we entered into with AsiaInfo Chengdu prior to 2018 are still ongoing and continuing.

### *Gross profit and margin*

As a result of the foregoing, gross profit increased by 32.4% from RMB215.6 million in the three months ended March 31, 2017 to RMB285.4 million in the three months ended March 31, 2018. Gross margin increased from 22.3% in the three months ended March 31, 2017 to 27.8% in the three months ended March 31, 2018.

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Gross profit for the Software Business increased by 32.9% from RMB214.7 million in the three months ended March 31, 2017 to RMB285.3 million in the three months ended March 31, 2018 and gross margin for the Software Business increased from 23.2% in the three months ended March 31, 2017 to 27.9% in the three months ended March 31, 2018. The increases were primarily attributable to (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017, which led to increased cost of sales and decreased gross margin for the Software Business in the three months ended March 31, 2017, and (ii) our improved efficiency in project execution and delivery in the three months ended March 31, 2018.

### *Other income*

Other income decreased by 31.6% from RMB32.3 million in the three months ended March 31, 2017 to RMB22.1 million in the three months ended March 31, 2018. The decrease was primarily due to a RMB11.9 million decrease in government grants. The decrease was partially offset by a RMB4.4 million increase in interest income as a result of increased purchase of short-term wealth management products.

### *Other gains and losses*

Our other gains increased significantly from RMB9.1 million in the three months ended March 31, 2017 to RMB66.4 million in the three months ended March 31, 2018, primarily as a result of the fluctuation of the exchange rate between U.S. dollars and Renminbi, which was related to the Privatization Syndicated Loan as well as other U.S. dollar-denominated bank loans.

### *Selling and marketing expenses*

Selling and marketing expenses decreased by 8.7% from RMB94.9 million in the three months ended March 31, 2017 to RMB86.7 million in the three months ended March 31, 2018, primarily attributable to (i) a decrease in the number of our sales and marketing staff as we further streamlined our sales and marketing activities, and (ii) various cost saving initiatives we implemented, such as increased centralization of our procurement activities. Selling and marketing expenses as a percentage of our total revenue decreased from 9.8% in the three months ended March 31, 2017 to 8.4% in the three months ended March 31, 2018.

### *Administrative expenses*

Administrative expenses increased by 15.6% from RMB75.7 million in the three months ended March 31, 2017 to RMB87.5 million in the three months ended March 31, 2018, primarily due to a RMB14.7 million increase in share-based compensation to incentivize our employees. The increase in administrative expenses was partially offset by a RMB12.0 million decrease in staff salaries and benefits, as we terminated the employment of certain staff in an effort to further streamline our operational activities and paid higher severance payments in the three months ended March 31, 2017.

### *Research and development expenses*

Research and development expenses decreased by 31.2% from RMB127.6 million in the three months ended March 31, 2017 to RMB87.8 million in the three months ended March 31, 2018, primarily due to a decrease in staff salaries and benefits, as we further streamlined our R&D activities to focus on R&D activities primarily in the areas of data-driven operation services, IoT and intelligent

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networks, which are consistent with our growth strategies, and discontinued certain R&D activities which were no longer aligned with our growth strategies.

### *Finance costs*

Finance costs decreased by 19.0% from RMB24.1 million in the three months ended March 31, 2017 to RMB19.5 million in the three months ended March 31, 2018, primarily due to a decrease in our bank borrowing, as we repaid all RMB-denominated bank loans in the second half of 2017.

### *Profit (loss) before tax*

As a result of the foregoing, we incurred a RMB83.2 million profit before tax in the three months ended March 31, 2018, compared to a RMB65.6 million loss before tax in the three months ended March 31, 2017.

### *Income tax (expenses) benefit*

We incurred a RMB6.3 million income tax expense in the three months ended March 31, 2018, compared to a RMB3.7 million income tax benefit in the three months ended March 31, 2017, primarily because we recognized deferred tax for losses incurred by certain of our subsidiaries in the three months ended March 31, 2017. This change was in line with the change in our taxable income.

### *Profit (loss) for the period from continuing operations*

As a result of the foregoing, we incurred a RMB76.9 million profit for the period from continuing operations in the three months ended March 31, 2018, compared to a RMB61.9 million loss for the period from continuing operations in the three months ended March 31, 2017.

## **Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

### *Revenue*

Revenue increased by 1.9% from RMB4,856.0 million in 2016 to RMB4,948.3 million in 2017, primarily attributable to a 6.9% increase in revenue for the Software Business. The increase was partially offset by a 63.8% decrease in revenue for the Network Security Business.

### *Software Business*

Revenue for the Software Business increased by 6.9% from RMB4,514.6 million in 2016 to RMB4,824.9 million in 2017, primarily attributable to an increase in revenue from software products and related services, and partially offset by a decrease in other revenue.

Revenue for the Software Business derived from the provision of software products and related services increased by 8.9% from RMB4,170.8 million in 2016 to RMB4,541.5 million in 2017. This increase was primarily due to a 9.3% increase in revenue from telecom operators from RMB4,012.1 million in 2016 to RMB4,385.7 million in 2017, which was primarily as a result of (i) increase in the number of our telecom operator customers from 181 as of December 31, 2016 to 193 as of December 31, 2017, and (ii) increased demand from existing telecom operator customers, primarily driven by continuous system upgrade and expansion and increase in popularity of our big data products. To a lesser extent, the increase was attributable to a 33.0% increase in revenue from

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large enterprises from RMB74.2 million in 2016 to RMB98.7 million in 2017, which was primarily a result of increase in the number of large enterprise customers and increased demand from these customers. The increase was partially offset by a 32.5% decrease in revenue from small- to medium-sized enterprises from RMB84.5 million in 2016 to RMB57.0 million in 2017, primarily because we shifted our non-telecom market’s strategic focus from small- to medium-sized enterprises to large enterprises, and ceased to collaborate with certain small- to medium-sized enterprise customers in 2017. Revenue for the Software Business derived from the provision of software products and related services as a percentage of total revenue was 85.9% and 91.8% in 2016 and 2017, respectively.

Revenue for the Software Business derived from the provision of data-driven operation services increased by 33.0% from RMB31.4 million in 2016 to RMB41.7 million in 2017, primarily due to increased demand from telecom operator customers. Revenue for the Software Business derived from the provision of data-driven operation services as a percentage of total revenue was 0.6% and 0.8% in 2016 and 2017, respectively.

Other revenue for the Software Business decreased by 22.7% from RMB312.5 million in 2016 to RMB241.7 million in 2017, primarily due to a decrease in customer demand for our procurement of third-party hardware and software.

### *Network Security Business*

Revenue for the Network Security Business decreased by 63.8% from RMB341.3 million in 2016 to RMB123.4 million in 2017, primarily due to a decrease in Network Security Transitional Arrangement in 2017.

### *Cost of sales*

Cost of sales increased by 3.0% from RMB3,183.3 million in 2016 to RMB3,277.9 million in 2017, primarily due to an increase in cost of sales for the Software Business. The increase was partially offset by a decrease in cost of sales for the Network Security Business.

### *Software Business*

Cost of sales for the Software Business increased by 10.8% from RMB2,848.9 million in 2016 to RMB3,156.9 million in 2017. The increase was primarily attributable to a RMB418.8 million increase in staff costs, primarily due to the following reasons: (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017, (ii) we involved a larger number of staff in the execution and delivery of an increasing number of large-scale, complex projects in 2017, and (iii) we paid higher bonuses in 2017 to incentivize our employees. The increase in cost of sales for the Software Business was partially offset by a RMB108.5 million decrease in project-related costs, primarily attributable to (i) a decrease in customer demand for our procurement of third-party hardware and software in 2017, and (ii) our enhanced cost control and the various cost saving initiatives we implemented in 2017, such as increased centralization of our procurement activities.

### *Network Security Business*

Cost of sales for the Network Security Business decreased by 63.8% from RMB334.5 million in 2016 to RMB121.0 million in 2017, primarily due to a decrease in Network Security Transitional Arrangement in 2017.

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### *Gross profit and margin*

Gross profit was RMB1,672.6 million and RMB1,670.4 million in 2016 and 2017, respectively, and gross margin decreased slightly from 34.4% in 2016 to 33.8% in 2017.

Gross profit for the Software Business increased RMB1,665.8 million in 2016 to RMB1,668.0 million in 2017, and gross margin for the Software Business decreased from 36.9% in 2016 to 34.6% in 2017. The decrease was primarily because (i) certain projects which were scheduled to be completed in 2016 were delayed and carried over to 2017, resulting in increased cost of sales in 2017, and (ii) we involved a larger number of staff in the execution and delivery of an increasing number of large-scale, complex projects in 2017.

### *Other income*

Other income decreased by 19.1% from RMB141.8 million in 2016 to RMB114.7 million in 2017. The decrease was primarily due to a decrease in income from management support services, because we provided less legal support, human resources, management system and network, daily administrations and other management services to AsiaInfo Chengdu and a few other related parties as they gradually built up their own operational capabilities.

### *Other gains and losses*

We incurred other gains of RMB68.8 million in 2017, compared to other losses of RMB45.2 million in 2016. The change was primarily as a result of the fluctuation of the exchange rate between U.S. dollars and Renminbi, which was related to the Privatization Syndicated Loan as well as other U.S. dollar-denominated bank loans.

### *Selling and marketing expenses*

Selling and marketing expenses decreased by 21.6% from RMB614.6 million in 2016 to RMB481.8 million in 2017, primarily attributable to (i) a decrease in the number of our sales and marketing staff in 2017 as we further streamlined our sales and marketing activities, and (ii) various cost saving initiatives we implemented in 2017, such as further increased centralization of our procurement activities. Selling and marketing expenses as a percentage of our total revenue decreased from 12.7% in 2016 to 9.7% in 2017.

### *Administrative expenses*

Administrative expenses increased by 47.9% from RMB273.1 million in 2016 to RMB403.8 million in 2017, primarily as a result of a RMB119.1 million increase in staff salaries and benefits, which was primarily due to (i) increased severance payments, as we terminated the employment of certain staff in 2017 in an effort to further streamline our operational activities, and (ii) we paid a higher amount of bonuses in 2017 to incentivize our employees.

### *Research and development expenses*

Research and development expenses decreased by 32.4% from RMB636.6 million in 2016 to RMB430.2 million in 2017. The decrease was primarily due to reduced R&D activities. In 2017, we further streamlined our R&D activities to focus on R&D activities primarily in the areas of data-driven operation services and intelligent networks, which were consistent with our growth strategies, and discontinued certain R&D activities which were no longer aligned with our growth strategies.



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### *Finance costs*

Finance costs decreased by 10.6% from RMB93.9 million in 2016 to RMB84.0 million in 2017, primarily due to a decrease in our bank borrowings.

### *Profit before tax*

As a result of the foregoing, profit before tax increased significantly from RMB141.0 million in 2016 to RMB423.8 million in 2017.

### *Income tax (expenses) benefit*

Income tax expenses increased by 32.2% from RMB67.0 million in 2016 to RMB88.6 million in 2017, primarily due to increased taxable income.

### *Profit for the year from continuing operations*

As a result of the foregoing, profit for the year from continuing operations increased significantly from RMB74.0 million in 2016 to RMB335.2 million in 2017.

## **Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

### *Revenue*

Revenue increased by 1.9% from RMB4,764.9 million in 2015 to RMB4,856.0 million in 2016, primarily attributable to a 5.6% increase in revenue for the Software Business. The increase was partially offset by a 30.3% decrease in revenue for the Network Security Business.

### *Software Business*

Revenue for the Software Business increased by 5.6% from RMB4,275.2 million in 2015 to RMB4,514.6 million in 2016, primarily attributable to an increase in revenue from software products and related services.

Revenue for the Software Business derived from the provision of software products and related services increased by 4.4% from RMB3,996.7 million in 2015 to RMB4,170.8 million in 2016. This increase was primarily due to a 3.5% increase in revenue from telecom operators from RMB3,877.8 million in 2015 to RMB4,012.1 million in 2016, which was primarily driven by increased demand from telecom operator customers. To a lesser extent, the increase was attributable to a 60.1% increase in revenue from large enterprise customers from RMB46.4 million in 2015 to RMB74.2 million in 2016, as we shifted our non-telecom markets' strategic focus from small- to medium-sized enterprises to large enterprises since the second half of 2016. Revenue for the Software Business derived from the provision of software products and related services as a percentage of total revenue was 83.9% and 85.9% in 2015 and 2016, respectively.

Revenue for the Software Business derived from the provision of data-driven operation services increased by 73.7% from RMB18.1 million in 2015 to RMB31.4 million in 2016. This increase was primarily due to increased demand from telecom operator customers. Revenue for the Software Business derived from the provision of data-driven operation services as a percentage of total revenue was 0.4% and 0.6% in 2015 and 2016, respectively.

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Other revenue for the Software Business increased by 20.0% from RMB260.5 million in 2015 to RMB312.5 million in 2016, primarily due to an increase in customer demand for our procurement of third-party hardware and software.

### *Network Security Business*

Revenue for the Network Security Business decreased by 30.3% from RMB489.6 million in 2015 to RMB341.3 million in 2016. The decrease was primarily due to decrease in scale of our Network Security Business, as we disposed of AsiaInfo Chengdu, the principal entity operating the Network Security Business, in late 2015. See “Business—Our Products and Services—Others—Network Security Business” for more details.

### ***Cost of Sales***

Cost of sales increased by 6.4% from RMB2,991.2 million in 2015 to RMB3,183.3 million in 2016, primarily due to a 6.7% increase in cost of sales for the Software Business.

### *Software Business*

Cost of sales for the Software Business increased by 6.7% from RMB2,669.7 million in 2015 to RMB2,848.9 million in 2016, primarily attributable to a RMB234.5 million increase in project-related costs, which was in line with the continued growth of our business.

### *Network Security Business*

Cost of sales for the Network Security Business increased by 4.0% from RMB321.5 million in 2015 to RMB334.5 million in 2016, primarily due to decrease in scale of the Network Security Business.

### ***Gross profit and margin***

As a result of the foregoing, gross profit decreased by 5.7% from RMB1,773.6 million in 2015 to RMB1,672.6 million in 2016, and gross margin decreased from 37.2% in 2015 to 34.4% in 2016.

Gross profit for the Software Business increased by 3.8% from RMB1,605.5 million in 2015 to RMB1,665.8 million in 2016, and gross margin for the Software Business remained relatively stable at 37.6% and 36.9% in 2015 and 2016, respectively.

### ***Other income***

Other income increased by 53.7% from RMB92.3 million in 2015 to RMB141.8 million in 2016. The increase was primarily due to (i) a RMB40.7 million increase in income from management support services, which was primarily due to increased legal support, human resources, management system and network, daily administrations and other management services we provided to AsiaInfo Chengdu in 2016: as AsiaInfo Chengdu was disposed of in late 2015, we only provided management support services to AsiaInfo Chengdu for November and December 2015, yet we provided such services to AsiaInfo Chengdu for the full year of 2016, and (ii) a RMB16.1 million increase in interest income from related parties.

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### *Other gains and losses*

Other losses increased from RMB4.1 million in 2015 to RMB45.2 million in 2016, primarily as a result of a RMB95.2 million exchange loss in 2016 associated with fluctuation in exchange rate between U.S. dollars and Renminbi, which was primarily related to the Privatization Syndicated Loan which was transferred to our Group in December 2015, partially offset by a RMB48.8 million gain on disposal of a subsidiary in 2016.

### *Selling and marketing expenses*

Selling and marketing expenses increased by 7.3% from RMB572.9 million in 2015 to RMB614.6 million in 2016, primarily due to an RMB48.3 million increase in salaries and benefits for our sales and marketing staff, primarily due to an increase in headcount of our sales and marketing staff as we continued to expand our business and fine-tune our growth strategies. Selling and marketing expenses as a percentage of our total revenue increased from 12.0% in 2015 to 12.7% in 2016.

### *Administrative expenses*

Administrative expenses increased by 6.8% from RMB255.8 million in 2015 to RMB273.1 million in 2016, primarily due to an RMB34.1 million increase in staff salaries and benefits as a result of increased headcount of our administrative staff.

### *Research and development expenses*

Research and development expenses remained relatively stable at RMB629.6 million and RMB636.6 million in 2015 and 2016, respectively.

### *Finance costs*

Finance costs increased significantly from RMB6.1 million in 2015 to RMB93.9 million in 2016, primarily due to the increase in interest payment in 2016 as a result of increase in bank borrowings, which was primarily related to (i) the transfer of the Privatization Syndicated Loan to our Group in December 2015, and (ii) an increase in RMB-denominated bank borrowings to meet our working capital needs.

### *Profit before tax*

As a result of the foregoing, profit before tax decreased by 64.5% from RMB397.4 million in 2015 to RMB141.0 million in 2016.

### *Income tax (expenses) benefit*

Income tax expenses decreased by 23.5% from RMB87.6 million in 2015 to RMB67.0 million in 2016, as a result of decreased taxable income. The decrease was partially offset by the fact that the losses of some of our subsidiaries incurred in 2016 were not recognized for tax purposes.

### *Profit for the year from continuing operations*

As a result of the foregoing, profit for the year from continuing operations decreased by 76.1% from RMB309.8 million in 2015 to RMB74.0 million in 2016.

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### NET CURRENT ASSETS (LIABILITIES)

Our combined statements of financial position as of December 31, 2015 also include results of the discontinued operations. Our combined statements of financial position as of December 31, 2016 also include results of the E-public Service Business.

The following table sets forth our current assets, current liabilities and net current assets (liabilities) as of the dates indicated:

|  | As of December 31, |                  |                  | As of            | As of            |
|--|--------------------|------------------|------------------|------------------|------------------|
|  | 2015               | 2016             | 2017             | March 31,        | June 30,         |
|  | RMB'000            |                  |                  | 2018             | 2018             |
|  |                    |                  |                  | (unaudited)      | (unaudited)      |
| <b>Current assets:</b>                                 |                    |                  |                  |                  |                  |
| Inventories  | 31,817             | 2,297            | 7,100            | 9,416            | 2,697            |
| Trade and notes receivables                            | 787,491            | 775,888          | 888,445          | 794,221          | 830,526          |
| Prepayments, deposits and other receivables            | 154,345            | 204,335          | 176,501          | 201,398          | 218,946          |
| Available-for-sale investments                         | —                  | 20,000           | 3,665            | —                | —                |
| Derivative financial instruments                       | 749                | —                | —                | —                | —                |
| Contract assets  | 1,650,905          | 1,683,234        | 1,632,039        | 1,760,952        | 1,516,688        |
| Amounts due from fellow subsidiaries                   | 142,947            | 193,785          | 246,244          | 120,149          | 26,736           |
| Amounts due from an associate                          | 14                 | 13,203           | —                | —                | —                |
| Amounts due from immediate holding company             | —                  | —                | —                | 604,744          | —                |
| Amounts due from intermediate holding companies        | —                  | —                | 5,645            | 5,426            | —                |
| Pledged bank deposits                                  | 230,704            | 523,770          | 537,089          | 570,363          | 405,414          |
| Bank balances and cash                                 | 1,409,205          | 1,583,120        | 1,450,588        | 697,085          | 633,378          |
| Total current assets                                   | <u>4,408,177</u>   | <u>4,999,632</u> | <u>4,947,316</u> | <u>4,763,754</u> | <u>3,634,385</u> |
| <b>Current liabilities:</b>                            |                    |                  |                  |                  |                  |
| Trade and notes payables                               | 601,778            | 792,246          | 612,500          | 527,551          | 502,550          |
| Contract liabilities                                   | 647,356            | 533,536          | 387,913          | 292,761          | 272,939          |
| Other payables, deposits received and accrued expenses | 1,540,866          | 1,611,040        | 1,890,500        | 2,045,268        | 1,648,360        |
| Amount due to a joint venture                          | —                  | 2,482            | —                | —                | —                |
| Amounts due to fellow subsidiaries                     | 278,404            | 290,712          | 200,672          | 112,925          | 61,281           |
| Amount due to ultimate holding company                 | —                  | 5,134            | —                | —                | 5,248            |
| Income tax payable                                     | 125,183            | 201,770          | 238,820          | 229,031          | 209,368          |
| Bank borrowings  | 422,352            | 1,237,502        | 1,154,593        | 1,704,075        | 1,793,139        |
| Total current liabilities                              | <u>3,615,939</u>   | <u>4,674,422</u> | <u>4,484,998</u> | <u>4,911,611</u> | <u>4,492,885</u> |
| Net current assets (liabilities)                       | <u>792,238</u>     | <u>325,210</u>   | <u>462,318</u>   | <u>(147,857)</u> | <u>(858,500)</u> |

Our net current liabilities increased from RMB147.9 million as of March 31, 2018 to RMB858.5 million as of June 30, 2018 (the “**Indebtedness Date**”). The increase in net current liabilities was primarily due to our settlement of outstanding related-party balances of non-trade nature in the second quarter of 2018 by declaring a dividend in the amount of approximately RMB0.7 billion to AsiaInfo Holdings, which led to a RMB604.7 million decrease in amounts due from immediate holding company and a RMB68.6 million decrease in amounts due from fellow subsidiaries. See “— Related Party Transactions” for more details.

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We had net current liabilities of RMB147.9 million as of March 31, 2018, compared to net current assets of RMB462.3 million as of December 31, 2017. The change in our financial position was primarily due to (i) the one-off refinancing of the US\$191.4 million Privatization Syndicated Loan (recorded as current and non-current bank borrowings on our balance sheet as of December 31, 2017) with bank loans (recorded as current bank borrowings on our balance sheet as of March 31, 2018) secured by pledged bank deposits in the first quarter of 2018, and (ii) funds securing the refinanced Privatization Syndicated Loans, which were recorded as cash on our balance sheet as of December 31, 2017, were recorded as current and non-current pledged bank deposits as of March 31, 2018. See Notes 28 and 32 to “Appendix I—Accountants’ Report” and Notes 18 and 21 to “Appendix IA—Condensed Combined Financial Statements” for more details.

Our net current assets increased from RMB325.2 million as of December 31, 2016 to RMB462.3 million as of December 31, 2017. This increase was primarily due to (i) a RMB179.7 million decrease in trade and notes payables, as a result of more efficient settlement with our suppliers, (ii) a RMB145.6 million decrease in contract liabilities, and (iii) a RMB112.6 million increase in trade and notes receivables, which was in line with our business growth. This increase was partially offset by a RMB279.5 million increase in other payables, deposits received and accrued expenses and a RMB132.5 million decrease in bank balances and cash.

Our net current assets decreased from RMB792.2 million as of December 31, 2015 to RMB325.2 million as of December 31, 2016. This decrease was primarily due to a RMB815.2 million increase in current bank borrowings. This decrease was partially offset by a RMB293.1 million increase in pledged bank deposits.

### Working Capital Sufficiency

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash generated from operations and bank borrowings. We manage our cash flow and working capital by closely monitoring and managing our operations and expansion plans. We also diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Our available financial resources include: (i) cash flow from operating activities, (ii) cash and cash equivalents, which amounted to RMB633.4 million as of June 30, 2018, (iii) pledged bank deposits securing our bank borrowings, primarily comprised of the refinanced Privatization Syndicated Loan, amounting to RMB889.0 million as of June 30, 2018, which will be released as the corresponding bank borrowings get repaid, (iv) committed and unutilized banking facilities, which amounted to RMB646.4 million as of June 30, 2018, and (v) the estimated [REDACTED] from the issuance of new Shares in the [REDACTED]. Taking into account these financial resources available to us, our Directors are of the view that we have sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this [REDACTED]. After due consideration and discussion with the Company’s management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditure, the Joint Sponsors concur with the view of our Directors.

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**CERTAIN BALANCE SHEET ITEMS**

**Inventories**

Our inventories predominantly include third-party hardware, equipment and software we procure for some of our projects. The table below sets forth a breakdown of our inventories as of the dates indicated:

|  | As of December 31, |       |       | As of     |
|--|--------------------|-------|-------|-----------|
|  | 2015               | 2016  | 2017  | March 31, |
|  | RMB*000            |       |       | 2018      |
| Computer hardware, equipment and software products . . . . . | 31,817             | 2,297 | 7,100 | 9,416     |

(unaudited)

As of December 31, 2015, 2016 and 2017 and March 31, 2018, our inventory balance was RMB31.8 million, RMB2.3 million, RMB7.1 million and RMB9.4 million, respectively. The fluctuation in our inventory balance was primarily due to the fluctuation in customer demand for our procurement of third-party hardware and software on their behalf.

The following table sets forth the turnover days of our inventories for the periods indicated:

|   | Year Ended December 31, |      |      | Three Months Ended |
|---|-------------------------|------|------|--------------------|
|   | 2015                    | 2016 | 2017 | March 31,          |
|   |                         |      |      | 2018               |
| Turnover days of inventories <sup>(1)</sup> . . . . . | 4.7                     | 2.0  | 0.5  | 1.0                |

(unaudited)

(1) Turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by 365 days or the numbers of days for the given period. The turnover days of inventories for the three months ended March 31, 2018 equals the arithmetic mean of the opening and closing balances of inventories for the relevant period divided by cost of sales and multiplied by 90 days.

Our inventory turnover days remained relatively stable at 2.0 days, 0.5 days and 1.0 days in 2016, 2017 and the three months ended March 31, 2018. Our inventory turnover days decreased from 4.7 days in 2015 to 2.0 days in 2016, as we procured an increasing amount of third-party hardware and software toward the end of year 2015 due to increased customer demand.

As of June 30, 2018, RMB6.4 million, or 67.5%, of our inventory balance amount as of March 31, 2018 had been sold or utilized.

**Trade and notes receivables**

Our trade and notes receivables represent outstanding trade and notes receivables from our customers for the purchase of our products or services. We generally grant credit terms of 30 days to our customers. Trade and notes receivables are unsecured and non-interest-bearing. We seek to maintain strict control over our outstanding trade and notes receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimize credit risk.



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The following table sets forth a summary of our trade and notes receivables as of the dates indicated:

|                                     | As of December 31, |         |         | As of March 31, |
|-------------------------------------|--------------------|---------|---------|-----------------|
|                                     | 2015               | 2016    | 2017    | 2018            |
|                                     | RMB'000            |         |         | (unaudited)     |
| <b>Trade and notes receivables:</b> |                    |         |         |                 |
| Trade receivables                   | 764,363            | 769,390 | 838,890 | 788,062         |
| Notes receivables                   | 27,777             | 11,813  | 56,638  | 15,091          |
| Less: allowance for doubtful debts  | (4,649)            | (5,315) | (7,083) | (8,932)         |
| Total                               | 787,491            | 775,888 | 888,445 | 794,221         |

Our trade and notes receivables decreased by 10.6% from RMB888.4 million as of December 31, 2017 to RMB794.2 million as of March 31, 2018, mainly reflecting a RMB50.8 million decrease in trade receivables and a RMB41.5 million decrease in notes receivables, which was primarily due to seasonality, as we typically experience a slow-down in our project development process and payment settlement process during the first quarter of the year due to the Chinese New Year holidays.

Our trade and notes receivables increased by 14.5% from RMB775.9 million as of December 31, 2016 to RMB888.4 million as of December 31, 2017, mainly reflecting a RMB69.5 million increase in trade receivables and a RMB44.8 million increase in notes receivables, which was in line with the continued growth of our business.

Our trade and notes receivables remained relatively stable at RMB787.5 million and RMB775.9 million as of December 31, 2015 and 2016, respectively.

As of June 30, 2018, approximately RMB567.0 million, or 71.4% of our trade and notes receivables (before provision for impairment of trade losses) outstanding as of March 31, 2018 had been settled.

The following table sets forth an aging analysis of our trade and notes receivables (net of allowance for doubtful debts) as of the dates indicated:

|               | As of December 31, |         |         | As of March 31, |
|---------------|--------------------|---------|---------|-----------------|
|               | 2015               | 2016    | 2017    | 2018            |
|               | RMB'000            |         |         | (unaudited)     |
| 1–30 days     | 488,818            | 492,768 | 511,500 | 236,017         |
| 31–90 days    | 137,286            | 164,904 | 184,986 | 170,247         |
| 91–180 days   | 124,700            | 77,551  | 113,042 | 262,914         |
| 181–365 days  | 25,943             | 30,359  | 65,755  | 103,528         |
| Over 365 days | 10,744             | 10,306  | 13,162  | 21,515          |
| Total         | 787,491            | 775,888 | 888,445 | 794,221         |

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Aging analysis of the trade receivables that are past due but not individually nor collectively considered to be impaired is as follows:

|               | As of December 31, |         |         | As of March 31, |
|---------------|--------------------|---------|---------|-----------------|
|               | 2015               | 2016    | 2017    | 2018            |
|               | RMB'000            |         |         | (unaudited)     |
| 1–90 days     | 194,795            | 213,095 | 255,585 | 348,934         |
| 91–180 days   | 58,625             | 32,479  | 64,863  | 108,087         |
| 181–365 days  | 21,720             | 20,317  | 41,893  | 67,118          |
| Over 365 days | 6,557              | 7,594   | 6,541   | 19,023          |
| Total         | 281,697            | 273,485 | 368,882 | 543,162         |

We provide allowance for trade receivables based on the evaluation of collectability and aging analysis. Certain judgment is applied in assessing the ultimate realization of these receivables, including the customers’ creditworthiness and past collection history.

The following table sets forth the turnover days of our trade and notes receivables for the periods indicated:

|   | Year Ended December 31, |      |      | Three Months Ended |
|---|-------------------------|------|------|--------------------|
|   | 2015                    | 2016 | 2017 | March 31,          |
|   |                         |      |      | 2018               |
|   |                         |      |      | (unaudited)        |
| Turnover days of trade and notes receivables <sup>(1)</sup> | 64.6                    | 58.8 | 61.4 | 73.8               |

(1) Turnover days of trade and notes receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes receivables for the relevant period by revenues and multiplying by 365 days or the numbers of days for the given period. Turnover days of trade and notes receivables for the three months ended March 31, 2018 equals the arithmetic mean of the opening and closing balances of trade and notes receivables for the relevant period divided by revenue and multiplied by 90 days.

Our trade and notes receivables turnover days remained relatively stable at 64.6 days, 58.8 days and 61.4 days in 2015, 2016 and 2017, respectively. Our trade and notes receivables turnover days increased from 61.4 days in 2017 to 73.8 days in the three months ended March 31, 2018, primarily due to seasonality, as we typically experience a slow-down in our project development process and payment settlement process with customers during the first quarter of the year due to Chinese New Year holidays.

### Trade and notes payables

Our trade and notes payables represent outstanding trade and notes payables to third-party hardware and software suppliers and outsourcing service providers.

Our trade and notes payables decreased by 13.9% from RMB612.5 million as of December 31, 2017 to RMB527.6 million as of March 31, 2018, primarily due to a RMB80.0 million decrease in notes payables, as a result of decreased customer demand for our procurement of third-party hardware and software.

Our trade and notes payables decreased by 22.7% from RMB792.2 million as of December 31, 2016 to RMB612.5 million as of December 31, 2017, primarily due to a RMB181.2 million decrease in trade payables, as a result of more efficient settlement with our suppliers.

Our trade and notes payables increased by 31.7% from RMB601.8 million as of December 31, 2015 to RMB792.2 million as of December 31, 2016, primarily due to a RMB115.4 million increase in

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trade payables and a RMB75.1 million increase in notes payables, which was in line with the continued growth of our business.

The following table sets forth a summary of our trade and notes payables as of the dates indicated:

|                                  | As of December 31, |         |         | As of March 31, |
|----------------------------------|--------------------|---------|---------|-----------------|
|                                  | 2015               | 2016    | 2017    | 2018            |
|                                  | RMB'000            |         |         | (unaudited)     |
| <b>Trade and notes payables:</b> |                    |         |         |                 |
| Trade payables                   | 595,677            | 711,050 | 529,808 | 524,859         |
| Notes payables                   | 6,101              | 81,196  | 82,692  | 2,692           |
| Total                            | 601,778            | 792,246 | 612,500 | 527,551         |

The following table sets forth the aging analysis of trade and notes payables as of the dates indicated:

|              | As of December 31, |         |         | As of March 31, |
|--------------|--------------------|---------|---------|-----------------|
|              | 2015               | 2016    | 2017    | 2018            |
|              | RMB'000            |         |         | (unaudited)     |
| 1–90 days    | 332,417            | 325,900 | 233,444 | 34,619          |
| 91–180 days  | 166,744            | 72,117  | 84,739  | 158,054         |
| 181–365 days | 73,467             | 216,091 | 74,079  | 105,047         |
| 1–2 years    | 17,492             | 166,480 | 173,673 | 147,363         |
| Over 2 years | 11,658             | 11,658  | 46,565  | 82,468          |
| Total        | 601,778            | 792,246 | 612,500 | 527,551         |

Our average credit period on purchases of goods and services is 90 days.

The following table sets forth the turnover days of our trade and notes payables for the periods indicated:

|  | Year Ended December 31, |      |      | Three Months Ended March 31, |
|--|-------------------------|------|------|------------------------------|
|  | 2015                    | 2016 | 2017 | 2018                         |
|  |                         |      |      | (unaudited)                  |
| Turnover days of trade and notes payables <sup>(1)</sup> | 110.3                   | 79.9 | 78.2 | 69.3                         |

(1) Turnover days of trade and notes payables is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant period by cost of sales, and multiplying by 365 days or the numbers of days for the given period. The turnover days of trade and notes payables for the three months ended March 31, 2018 equals the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant period divided by cost of sales, and multiplied by 90 days.

Our trade and notes payable turnover days remained relatively stable at 79.9 days and 78.2 days in 2016 and 2017, respectively, and decreased slightly to 69.3 days in the three months ended March 31, 2018. Our trade and notes payable turnover days decreased from 110.3 days in 2015 to 79.9 days in 2016, as we procured an increasing amount of third-party hardware and software for certain of our projects toward the end of year 2015 due to increased customer demand.

As of June 30, 2018, approximately RMB165.6 million, or 31.4% of our trade and notes payable outstanding as of March 31, 2018 had been settled.

***Other payables, deposits received and accrued expenses***

Other payables, deposits received and accrued expenses primarily include accrued payroll and welfare for our staff.

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The following table sets forth a summary of our other payables, deposits received and accrued expenses for the periods indicated:

|  | As of December 31, |           |           | As of March 31, |
|--|--------------------|-----------|-----------|-----------------|
|  | 2015               | 2016      | 2017      | 2018            |
|  | RMB'000            |           |           | (unaudited)     |
| Accrued payroll and welfare . . . . .                            | 1,324,852          | 1,399,315 | 1,601,912 | 1,615,602       |
| Acquisition of additional equity interests in subsidiaries . . . | —                  | —         | —         | 160,000         |
| Accrued expenses . . . . .                                       | 87,932             | 87,158    | 122,336   | 101,928         |
| Other tax payables . . . . .                                     | 63,247             | 71,538    | 85,601    | 66,345          |
| Accrued [REDACTED] and issue cost . . . . .                      | —                  | —         | 31,153    | 42,919          |
| Employee reimbursement payable . . . . .                         | 21,451             | 21,984    | 19,607    | 16,068          |
| Advance from customers . . . . .                                 | 11,293             | 15,064    | 14,148    | 29,202          |
| Other payable . . . . .  | 13,828             | 5,970     | 3,352     | 3,157           |
| Accrued liabilities . . . . .                                    | 16,512             | 6,951     | 3,665     | 1,096           |
| Others . . . . .   | 1,751              | 3,060     | 8,726     | 8,951           |
|  | 1,540,866          | 1,611,040 | 1,890,500 | 2,045,268       |

### Contract assets and contract liabilities

Contract assets represent our rights to receive consideration for contract work completed and not yet billed, because such rights are conditioned on our future performance in achieving specific contract milestones. Contract assets are transferred to trade receivables when the rights to receive consideration become unconditional, typically on the date of issuance of acceptance reports by our customers. The remaining rights to receive consideration or performance obligations under a particular contract are accounted for and presented on a net basis, either as contract assets or as contract liabilities.

The following table sets forth a summary of our contract assets and contract liabilities for the periods indicated:

|   | As of December 31, |           |           | As of March 31, |
|---|--------------------|-----------|-----------|-----------------|
|   | 2015               | 2016      | 2017      | 2018            |
|   | RMB'000            |           |           | (unaudited)     |
| Analyzed for reporting purposes as follows: |                    |           |           |                 |
| Contract assets . . . . .                   | 1,650,905          | 1,683,234 | 1,632,039 | 1,760,952       |
| Contract liabilities . . . . .              | (647,356)          | (533,536) | (387,913) | (292,761)       |

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through cash and cash equivalents on hand, cash generated from operations and bank borrowings. Our cash requirements primarily relate to operating activities, research and development, repayment of liabilities and capital expenditures. We do not anticipate any changes to the availability of financing to fund our operations in the future, although there is no assurance that we will be able to access any financing on favorable terms or at all.

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### Cash Flows

Our combined statements of cash flows for 2015 and 2016 also include results of the discontinued operations. Our combined statements of cash flows for 2017 also include results of the E-public Service Business.

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

|  | Year Ended December 31, |           |           | Three Months Ended<br>March 31, |             |
|--|-------------------------|-----------|-----------|---------------------------------|-------------|
|  | 2015                    | 2016      | 2017      | 2017                            | 2018        |
|  | RMB '000                |           |           | (unaudited)                     | (unaudited) |
| Net cash generated from (used in) operating activities | 327,079                 | 221,784   | 510,417   | (437,434)                       | (136,235)   |
| Net cash used in investing activities                  | (178,077)               | (284,653) | (65,710)  | (142,716)                       | (572,738)   |
| Net cash generated from (used in) financing activities | 210,576                 | 214,100   | (552,516) | 45,820                          | (31,044)    |
| Cash and cash equivalents at beginning of year/period  | 1,018,879               | 1,409,205 | 1,583,120 | 1,583,120                       | 1,450,588   |
| Cash and cash equivalents at the end of year/period    | 1,409,205               | 1,583,120 | 1,450,588 | 995,938                         | 697,085     |

Our operating cash flow improved in the three months ended March 31, 2018 compared to the same period in 2017. However, we incurred net cash used in operating activities of RMB136.2 million in the three months ended March 31, 2018, primarily as a result of seasonality. Due to telecom operators’ project management schedules, we typically experience faster payment settlement process with, our telecom operator customers in the second half of the year, resulting in seasonal fluctuations in our operating cash flows.

The decrease in cash and cash equivalents, and the net cash used in investing activities in the three months ended March 31, 2018 was primarily due to the one-off refinancing of the US\$191.4 million Privatization Syndicated Loan, which was secured by equity interests, with bank loans secured by pledged bank deposits in the first quarter of 2018.

### Operating activities

Our net cash used in operating activities in the three months ended March 31, 2018 was RMB136.2 million. Our operating cash flow improved in the three months ended March 31, 2018 compared to the same period in 2017. However, we incurred net cash used in operating activities of RMB136.2 million in the three months ended March 31, 2018, primarily as a result of seasonality. Due to telecom operators’ project management schedules, we typically experience faster payment settlement process with our telecom operator customers in the second half of the year, resulting in seasonal fluctuations in our operating cash flows. Our cash outflow for the three months ended March 31, 2018 was primarily attributable to our profit for the period of RMB83.2 million, as adjusted to reflect loss before taxation from discontinued operations of RMB1.3 million, non-cash items (which primarily comprised of depreciation and amortization of RMB16.9 million and share-based compensation expenses of RMB22.1 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB231.4 million increase in other payables, deposits received and accrued expenses, a RMB148.6 million increase in contract asset and a RMB95.2 million decrease in contract liabilities.

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## FINANCIAL INFORMATION

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Our net cash generated from operating activities in 2017 was RMB510.4 million. This cash inflow was primarily attributable to our profit for the year of RMB423.8 million, as adjusted to reflect loss before taxation from discontinued operations of RMB17.2 million, non-cash items (which primarily comprised of depreciation and amortization of RMB93.1 million and share-based compensation expenses of RMB73.5 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB525.5 million increase in other payables, deposits received and accrued expenses, a RMB153.9 million decrease in trade and notes payables due to decreased customer demand for our procurement of third-party hardware and software, a RMB133.8 million increase in trade and notes receivables and a RMB131.3 million decrease in contract liabilities.

Our net cash generated from operating activities in 2016 was RMB221.8 million. This cash inflow was primarily attributable to our profit for the year of RMB141.0 million, as adjusted to reflect loss before taxation from discontinued operations of RMB292.3 million, non-cash items (which primarily comprised of depreciation and amortization of RMB136.1 million and share-based compensation expenses of RMB35.7 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB223.8 million increase in other payables, deposits received and accrued expenses, a RMB195.3 million increase in trade and notes payables and a RMB135.4 million increase in prepayment, deposits and other receivables.

Our net cash generated from operating activities in 2015 was RMB327.1 million. This cash inflow was primarily attributable to our profit for the year of RMB397.4 million, as adjusted to reflect loss before taxation from discontinued operations of RMB417.8 million, non-cash items (which primarily comprised of depreciation and amortization of RMB197.4 million and share-based compensation expenses of RMB25.7 million) and the effect of changes in working capital. Changes in working capital mainly included a RMB637.0 million increase in contract assets, a RMB371.0 million increase in amounts due to fellow subsidiaries, a RMB358.2 million increase in other payables, deposits received and accrued expenses and a RMB343.0 million increase in contract liabilities.

### Investing activities

Our net cash used in investing activities in the three months ended March 31, 2018 was RMB572.7 million. This cash outflow was primarily attributable to placement of pledged bank deposits of RMB615.7 million, which was primarily in relation to the refinancing of the Privatization Syndicated Loan in the first quarter of 2018.

Our net cash used in investing activities in 2017 was RMB65.7 million. This cash outflow was primarily attributable to placement of pledged bank deposits of RMB179.2 million, advance to related parties of RMB67.0 million and payment for investment in associates of RMB56.0 million. This cash outflow was partially offset by withdrawal of pledged bank deposits of RMB197.2 million and repayment from related parties of RMB45.8 million.

Our net cash used in investing activities in 2016 was RMB284.7 million. This cash outflow was primarily attributable to placement of pledged bank deposits of RMB342.3 million, advance to related parties of RMB36.5 million and purchases of property, plant and equipment of RMB27.7 million. This cash outflow was partially offset by repayment from related parties of RMB103.6 million.

Our net cash used in investing activities in 2015 was RMB178.1 million. This cash outflow was primarily attributable to advance to related parties of RMB80.9 million, payment for land use rights of



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a piece of land of RMB57.8 million and purchase of property, plant and equipment of RMB56.4 million. This cash outflow was partially offset by proceeds on disposal of available-for-sale investments, which was in relation to wealth management products we purchased, of RMB60.1 million.

### Financing activities

Our net cash used in financing activities in the three months ended March 31, 2018 was RMB31.0 million. The cash outflow was primarily attributable to repayment of bank borrowings of RMB1,185.1 million, partially offset by new bank borrowings raised of RMB1,183.8 million, as we refinanced the Privatization Syndicated Loan, which was secured by equity interest, with bank loans secured by pledged bank deposits in the first quarter of 2018.

Our net cash used in financing activities in 2017 was RMB552.5 million. The cash outflow was primarily attributable to repayment of bank borrowings of RMB1,935.2 million, partially offset by new bank borrowings raised of RMB1,515.5 million.

Our net cash generated from financing activities in 2016 was RMB214.1 million. The cash inflow was primarily attributable to new bank borrowings raised of RMB1,619.9 million, partially offset by repayment of bank borrowing of RMB899.8 million.

Our net cash generated from financing activities in 2015 was RMB210.6 million. The cash inflow was primarily attributable to new bank borrowings raised of RMB443.0 million, partially offset by repayment to related parties of RMB245.2 million and repayment of bank borrowings of RMB226.2 million.

## CAPITAL EXPENDITURE AND COMMITMENTS

### Capital Expenditures

Our capital expenditures principally comprise expenditures for purchases of property, plant and equipment and long-term investments. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from operating activities. The following table sets out our capital expenditures for the periods indicated:

|   | Year Ended December 31, |               |               | Three Months<br>Ended<br>March 31, |
|---|-------------------------|---------------|---------------|------------------------------------|
|   | 2015                    | 2016          | 2017          | 2018                               |
|   | RMB'000                 |               |               |                                    |
| Purchase of property, plant and equipment . . . . . | 56,377                  | 27,692        | 10,289        | 3,915                              |
| Purchase of intangible assets . . . . .             | 7,729                   | 9,461         | 1,659         | 1,573                              |
| Payment for land use rights . . . . .               | 57,787                  | —             | —             | —                                  |
| Long-term investments . . . . .                     | 18,870                  | 13,000        | 56,000        | —                                  |
| <b>Total capital expenditure . . . . .</b>          | <b>140,763</b>          | <b>50,153</b> | <b>67,948</b> | <b>5,488</b>                       |

Capital expenditures amounted to RMB140.8 million, RMB50.2 million, RMB67.9 million and RMB5.5 million in 2015, 2016 and 2017 and the three months ended March 31, 2018, respectively. Capital expenditure in 2015 was primarily related to purchase of property, plant and equipment and payment for land use rights. Capital expenditure in 2016 was primarily related to purchase of property, plant and equipment. Capital expenditure in 2017 was primarily related to purchase of long-term investments. Capital expenditure in the three months ended March 31, 2018 was related to our purchase of property, plant and equipment and intangible assets.

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### Capital Commitments

We have capital commitments with respect to acquisition of property, plant and equipment. The following table sets forth our capital expenditures contracted for but not provided in the combined financial statements at the end of the periods indicated.

|   | As of December 31, |       |        | As of March 31, |
|---|--------------------|-------|--------|-----------------|
|   | 2015               | 2016  | 2017   | 2018            |
|   | RMB'000            |       |        | (unaudited)     |
| Capital expenditure contracted for but not provided in the combined financial statements—acquisition of property, plant and equipment . . . . . | 11,504             | 3,327 | 17,860 | 17,522          |

### Operating Lease Commitments

We have non-cancellable lease agreements with respect to certain of our property, plant and equipment. These leases are negotiated for terms of one to five years. The following table sets forth our future minimum lease payments under these non-cancelable operating leases which fall due as follows:

|  | As of December 31, |         |         | As of March 31, |
|--|--------------------|---------|---------|-----------------|
|  | 2015               | 2016    | 2017    | 2018            |
|  | RMB'000            |         |         | (unaudited)     |
| Within one year . . . . .                            | 41,013             | 47,970  | 59,772  | 72,096          |
| In the second to the fifth year, inclusive . . . . . | 104,385            | 232,285 | 270,880 | 266,668         |
| Over five years . . . . .                            | 414                | 106,221 | 46,472  | 30,981          |
| <b>Total</b> . . . . .                               | 145,812            | 386,476 | 377,124 | 369,745         |

### INDEBTEDNESS AND CONTINGENCIES

As of June 30, 2018, we had total borrowings of RMB1,793.1 million, primarily comprised of the Privatization Syndicated Loan (such loan, which was secured by equity interest, was transferred to our Group in December 2015; in 2018, we refinanced such loan with bank loans secured by pledged bank deposits). As of the same date, we had committed and unutilized banking facilities of RMB646.4 million and none of our existing indebtedness included any material covenants or covenants that could potentially limit our ability to incur new indebtedness. In addition, as we plan to repay a portion of the Privatization Syndicated Loan using [REDACTED] from the [REDACTED], the relevant portion of the pledged bank deposits securing such loan will be released afterwards. Our Directors confirm that, during the Track Record Period up to the Latest Practicable Date, we had not breached any financial covenant or defaulted in repayment of bank borrowings or other loan facilities.

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The following table sets forth the breakdown of our outstanding interest-bearing borrowings as of the dates indicated:

|   | As of December 31, |                  |                  | As of March 31,  | As of June 30,   |
|---|--------------------|------------------|------------------|------------------|------------------|
|   | 2015               | 2016             | 2017             | 2018             | 2018             |
|   | RMB'000            |                  |                  | (unaudited)      | (unaudited)      |
| <b>Carrying amount repayable:</b>               |                    |                  |                  |                  |                  |
| Within one year                                 | 422,352            | 1,237,502        | 1,154,593        | 1,704,075        | 1,793,139        |
| More than one year but not exceeding two years  | 259,744            | 416,220          | 592,744          | —                | —                |
| More than two year but not exceeding five years | 765,696            | 623,265          | —                | —                | —                |
| <b>Total borrowings</b>                         | <b>1,447,792</b>   | <b>2,276,987</b> | <b>1,747,337</b> | <b>1,704,075</b> | <b>1,793,139</b> |

The following table sets forth the breakdown of our secured and unsecured bank borrowings:

|                              | As of December 31, |                  |                  | As of March 31,  | As of June 30,   |
|------------------------------|--------------------|------------------|------------------|------------------|------------------|
|                              | 2015               | 2016             | 2017             | 2018             | 2018             |
|                              | RMB'000            |                  |                  | (unaudited)      | (unaudited)      |
| Unsecured                    | 74,944             | 500,792          | —                | —                | —                |
| Secured                      | <u>1,372,848</u>   | <u>1,776,195</u> | <u>1,747,337</u> | <u>1,704,075</u> | <u>1,793,179</u> |
| <b>Total bank borrowings</b> | <b>1,447,792</b>   | <b>2,276,987</b> | <b>1,747,337</b> | <b>1,704,075</b> | <b>1,793,179</b> |

The following table sets forth the breakdown of our bank borrowings by currency:

|                              | As of December 31, |                  |                  | As of March 31,  | As of June 30,   |
|------------------------------|--------------------|------------------|------------------|------------------|------------------|
|                              | 2015               | 2016             | 2017             | 2018             | 2018             |
|                              | RMB'000            |                  |                  | (unaudited)      | (unaudited)      |
| Denominated in USD           | 1,372,848          | 1,776,195        | 1,747,337        | 1,704,075        | 1,396,103        |
| Denominated in RMB           | 74,944             | 500,792          | —                | —                | —                |
| Denominated in HK\$          | —                  | —                | —                | —                | 397,036          |
| <b>Total bank borrowings</b> | <b>1,447,792</b>   | <b>2,276,987</b> | <b>1,747,337</b> | <b>1,704,075</b> | <b>1,793,139</b> |

Interests on bank borrowings denominated in USD are at variable interest rates based on London InterBank Offered Rate (“LIBOR”) plus 2% to 3.2%, 0.7% to 3.2%, 1% to 3.2% and three-month LIBOR plus 1.45% to 1.5% per annum as of December 31, 2015, 2016, 2017 and March 31, 2018, respectively.

Interests on bank borrowings denominated in RMB are at fixed rates based on the borrowing rates announced by the PBOC. The interest rate for the bank borrowings in RMB were at 4.22% to 5.90%, 4.57% to 4.79% and 4.35% to 4.79% per annum as of December 31, 2015, 2016 and 2017, respectively. The RMB denominated bank borrowings were fully repaid in 2017.

Interests on bank borrowings denominated in Hong Kong dollars are at variable interest rates based on Hong Kong Interbank Offered Rate plus 1% per annum as of June 30, 2018.

As of the Latest Practicable Date, we did not have any plan for material external debt financing.

As of June 30, 2018, other than as disclosed in this [REDACTED], we did not have any outstanding debt securities, charges, mortgages, or other similar indebtedness, hire purchase and financial leasing commitments, any guarantees or other material contingent liabilities. Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since June 30, 2018 and that we do not foresee or expect any difficulties in meeting our financial obligations.

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### [REDACTED] EXPENSES

Based on the mid-point of the indicative [REDACTED] range and assuming the [REDACTED] is not exercised, our total [REDACTED] expenses is expected to be approximately RMB[143.4] million. We incurred approximately RMB[REDACTED] of [REDACTED] expenses in 2017, among which approximately RMB[REDACTED] was recognized as [REDACTED] expenses in our combined statements of profit or loss and other comprehensive (expense) income and approximately RMB[REDACTED] was capitalized. We expect to incur an aggregate of approximately RMB[REDACTED] of [REDACTED] expenses based on the mid-point of the indicative [REDACTED] range and assuming the [REDACTED] is not exercised, and including, among others, [REDACTED] and the discretionary incentive fee, if any in 2018, among which approximately RMB[REDACTED] will be recognized as [REDACTED] expenses in our combined statements of profit or loss and other comprehensive (expense) income and approximately RMB[REDACTED] will be capitalized.

The [REDACTED] expenses above are the latest practicable estimate and are provided for reference only, and actual amounts may differ. We do not expect the additional [REDACTED] expenses to have a material impact on our results of operations.

### KEY FINANCIAL RATIOS

The following table sets forth key financial ratios as of the dates and for the periods indicated:

|   | For the year ended or as of December 31, |       |       | For the three months<br>ended or as of March 31, |
|---|--|-------|-------|--|
|   | 2015                                     | 2016  | 2017  | 2018<br>(unaudited)                              |
| EBITDA margin from continuing operations <sup>(1)</sup> . . . . .                                     | 12.6%                                    | 7.6%  | 12.1% | 11.7%  |
| Adjusted EBITDA margin from continuing operations <sup>(2)</sup> . . . . .                            | 13.1%                                    | 8.3%  | 14.2% | 14.8%  |
| Profit/(loss) margin for the year/period from continuing operations <sup>(3)</sup> . . . . .          | 6.5%                                     | 1.5%  | 6.8%  | 7.5%   |
| Adjusted profit (loss) margin for the year/period from continuing operations <sup>(4)</sup> . . . . . | 9.9%                                     | 5.2%  | 11.1% | 12.7%  |
| Gearing ratio <sup>(5)</sup> . . . . .  | 55.7%                                    | 88.0% | 57.5% | 58.8%  |

(1) EBITDA margin from continuing operations is calculated by dividing EBITDA from continuing operations (which is profit (loss) before tax plus finance costs and depreciation and amortization expenses) by revenue and multiplied by 100%

(2) Adjusted EBITDA margin from continuing operations is calculated by dividing adjusted EBITDA from continuing operations (EBITDA from continuing operations adjusted by adding back share-based compensation and one-off [REDACTED] expenses) by revenue and multiplied by 100%

(3) Profit/(loss) margin for the year/period from continuing operations is calculated by dividing profit (loss) for the year/period from continuing operations by revenue and multiplied by 100%

(4) Adjusted profit (loss) margin for the year/period from continuing operations is calculated by dividing adjusted profit (loss) for the year/period from continuing operations (profit (loss) for the year/period from continuing operations adjusted by adding back share-based compensation, amortization of intangible assets resulting from acquisitions, one-off [REDACTED] expenses and interest expenses for the Privatization Syndicated Loan) by revenue and multiplied by 100%

(5) Gearing ratio is calculated by dividing total debt by total equity and multiplied by 100%

Our EBITDA margin remained relatively stable at 12.1% and 11.7% in 2017 and the three months ended March 31, 2018, respectively. Our EBITDA margin increased from 7.6% in 2016 to 12.1% in 2017, primarily due to an increase in our profit before tax. Our EBITDA margin decreased from 12.6% in 2015 to 7.6% in 2016, primarily due to a decrease in our profit before tax.

Our profit/(loss) margin for the year/period from continuing operations remained relatively stable at 6.8% and 7.5% in 2017 and in the three months ended March 31, 2018, respectively. Our

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profit/(loss) margin for the year/period from continuing operations increased from 1.5% in 2016 to 6.8% in 2017, primarily due to an increase in our profit for the year from continuing operations. Our profit/(loss) margin for the year/period from continuing operations decreased from 6.5% for 2015 to 1.5% for 2016, primarily due to a decrease in our profit for the year from continuing operations.

Our gearing ratio remained relatively stable at 57.5% and 58.8% as of December 31, 2017 and March 31, 2018, respectively. Our gearing ratio decreased from 88.0% as of December 31, 2016 to 57.5% as of December 31, 2017, primarily due to a 43.0% decrease in our non-current borrowings from RMB1,039.5 million as of December 31, 2016 to RMB592.7 million as of December 31, 2017. Our gearing ratio increased from 55.7% as of December 31, 2015 to 88.0% as of December 31, 2016, primarily due to a 193.0% increase in our current borrowings from RMB422.4 million as of December 31, 2015 to RMB1,237.5 million as of December 31, 2016.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties. These transactions were conducted on normal commercial terms in the ordinary course of our business, with pricing policies consistent with those transactions conducted with independent third parties. These transactions primarily included transactions with AsiaInfo Chengdu with respect to the Network Security Transitional Arrangement. It is the view of our Directors that each of the related party transactions set out in Note 43 to the Accountant’s Report in Appendix I and in Note 24 to the condensed combined financial statements in Appendix IA to this [REDACTED] were conducted in the ordinary course of business on an arm’s length basis between the relevant parties and were entered into on normal commercial terms.

During the Track Record Period, we have entered into a number of related party transactions which were of non-trade nature.

Amount due to related parties—non-trade nature, amounted to RMB92.5 million, RMB70.9 million and RMB22.9 million, as of December 31, 2015, 2016 and 2017, respectively. Amount due from related parties—non-trade nature, amounted to RMB175.9 million, RMB713.9 million and RMB735.1 million as of December 31, 2015, 2016 and 2017, respectively.

Of the total amounts due from related parties, the amounts due from/to related parties were mostly unsecured, interest-free and repayable on demand as of December 31, 2015, 2016 and 2017, except for the following major related party activities:

- (i) On July 10, 2015, AsiaInfo Technology HK and a related party, AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo Technology HK agreed to provide a revolving facility to AsiaInfo Cayman up to US\$50.0 million. US\$20 million (equivalent to RMB122.3 million) was drawn on July 13, 2015. The amounts due from AsiaInfo Cayman were unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was fully settled as at December 31, 2015;
- (ii) On May 18, 2015, AsiaInfo HK and AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo HK agreed to provide a revolving facility up to US\$58.9 million. A borrowing was drawn on May 19, 2015, amounting to US\$22.2 million (equivalent to RMB144.0 million). On December 30, 2015, another agreements were entered into between AsiaInfo Technologies HK, AsiaInfo Holdings, AsiaInfo HK and

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- AsiaInfo Cayman where AsiaInfo Cayman transferred the loan owed to AsiaInfo HK to AsiaInfo Holdings and AsiaInfo (H.K.) limited transferred the rights to receive to the AsiaInfo Technologies HK. The loan was unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was outstanding during the Track Record Period;
- (iii) On May 5, 2015, AsiaInfo Technology HK and a related party, AsiaInfo Cayman, entered into a borrowing agreement where Hong Kong AsiaInfo Technologies Limited agreed to provide a revolving facility up to US\$6.0 million. A full amount of US\$6 million was drawn on May 6, 2015. The loan was unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was settled by non-cash transactions as of December 31, 2015;
- (iv) On September 1, 2015, AsiaInfo Technology HK and a related party, AsiaInfo Holdings, entered into a borrowing agreement where AsiaInfo Technology HK agreed to provide a revolving facility up to US\$25.7 million. Two borrowings were drawn in 2016 and 2017 in an amount of US\$15.7 million (equivalent to RMB108.9 million) and US\$10.0 million (equivalent to RMB65.3 million), respectively. The loan was unsecured, interest free and repayable on demand. The amount was outstanding during the Track Record Period;
- (v) On October 31, 2015, AsiaInfo Nanjing and a related party, Nanjing AsiaInfo Information Safe Technology Ltd., entered into a borrowing agreement where AsiaInfo Nanjing agreed to lend RMB80.0 million to Nanjing AsiaInfo Information Safe Technologies Ltd. for its daily operation. The loan was unsecured, with an interest rate of 4.35% per annum and repayable on demand. RMB40.0 million was repaid on December 29, 2016 and the outstanding amount was RMB40.0 million as at December 31, 2016. Subsequently the outstanding balance was fully repaid in 2017;
- (vi) On August 11, 2015, AsiaInfo Holdings entered into a facility agreement with Bank of China, Macau Branch, pursuant to which AsiaInfo Holdings borrowed a term loan of US\$200.0 million. On December 30, 2015, AsiaInfo Holdings entered into an amendment and novation deed with AsiaInfo Technologies HK, pursuant to which AsiaInfo Holdings transferred all of its rights and obligations under the original facility agreement in connection with the entire unpaid principal amount of the outstanding loan (US\$191.4 million) and accrued interest of US\$0.8 million as at December 30, 2015 to AsiaInfo Technologies HK (the “**Debt Push-down**”). The amount due from AsiaInfo Holdings was partially offset by the dividend payment in an aggregate amount of US\$140.0 million (equivalent to RMB909.1 million) declared by AsiaInfo Technologies HK, and the remaining amounts were unsecured, interest bearing at 3.2% per annum plus the London Interbank Offered Rate (“**LIBOR**”), and repayable on demand. The amount was substantially settled by dividend distribution of US\$140.0 million (equivalent to RMB909.1 million) in December 2015. The remaining balance was outstanding during the Track Record Period;
- (vii) On November 2, 2015, Beijing AsiaInfo (Xintong) Technology Co., Ltd. and AsiaInfo Chengdu entered into a related party borrowing agreement, pursuant to which AsiaInfo Chengdu borrowed RMB45.0 million from Beijing AsiaInfo (Xintong) Technology Co., Ltd. with an annual interest rate of 4.35%;
- (viii) On April 28, 2016, Beijing AsiaInfo Big Data entered into a borrowing agreement with a related party, Beijing AsiaInfo (Xintong) Technology Co., Ltd., pursuant to which Beijing AsiaInfo Big Data agreed to borrow RMB19.5 million from the lender. The loan to Beijing



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## FINANCIAL INFORMATION

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AsiaInfo (Xintong) Technology Co., Ltd. was unsecured, interest bearing at 4.35% per annum and repayable on demand. The balance of amount due from was fully repaid on September 30, 2016.

Another borrowing agreement was entered into between Beijing AsiaInfo (Xintong) Technology Co., Ltd. and Beijing AsiaInfo Big Data on May 4, 2017, pursuant to which Beijing AsiaInfo (Xintong) Technology Co., Ltd. agreed to lend RMB10.0 million to Beijing AsiaInfo Big Data at an annual rate of 4.35%;

- (ix) On June 14, 2016, AsiaInfo Technologies HK entered into a borrowing agreement with a related party, International HK, pursuant to which International HK agreed to make available a revolving facility, up to US\$60.0 million. A borrowing was drawn on June 16, 2016, amounting to US\$45.0 million (equivalent to RMB298.4 million). The loan from International HK was unsecured, interest bearing at a three-month LIBOR rate plus 100bps and repayable on demand. The amount was partially repaid of US\$12.0 million (equivalent to RMB81.2 million) and US\$25.0 million (equivalent to RMB173.4 million) on October 26, 2016 and December 30, 2016, respectively. The remaining amount due to International HK was outstanding as at December 31, 2016 and was fully repaid in March 2017;
- (x) On July 31, 2016, AsiaInfo Nanjing and a related party, Beijing AsiaInfo (Xintong) Technology Co., Ltd., entered into a borrowing agreement, pursuant to which AsiaInfo Nanjing agreed to lend RMB24.0 million to the borrower. The amounts due from Beijing AsiaInfo (Xintong) Technology Co., Ltd., were unsecured, interest bearing at 4.35% per annum and repayable on demand. The amount was outstanding during the Track Record Period; and
- (xi) On April 5, 2017 and May 31, 2017, AsiaInfo China and Beijing AsiaInfo Dataware Technology Co., Ltd., a related party, entered into two separated related party borrowing agreements, pursuant to which Beijing AsiaInfo Dataware Technology Co., Ltd. borrowed RMB6.5 million and RMB6.4 million from AsiaInfo China, respectively, both of which carried an annual interest rate at 4.35%. The loans were fully repaid on December 6, 2017.

Interests were accrued and expenses were charged to us until October 2017 upon the sale of Beijing AsiaInfo Big Data to Guangzhou AsiaInfo Cloud Co., Ltd. as a part of the discontinued operations.

Amount due from related parties—non-trade nature, amounted to RMB673.3 million as of March 31, 2018, all of which had been settled as of June 30, 2018. Amount due to related parties—non-trade nature, amounted to RMB13.2 million as of March 31, 2018, all of which will be fully repaid prior to [REDACTED].

Our Directors are also of the view that our related parties transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

### QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks, including credit risk, liquidity risk and foreign currency risk. Set forth below is a description of our exposure to these risks and our financial risk management policies and practices to manage these risks.

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### Credit Risk

Our maximum exposure to credit risk which causes a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position. Our credit risk is primarily attributable to its trade and notes receivables, other receivables, other non-current assets and amount due from related parties. An allowance for doubtful debts for trade and notes receivables, other receivables, other non-current assets and amount due from related parties is made when there is an identified loss event which, based on previous experience and management’s assessment of the current economic environment and the financial condition of counterparties, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of our treasury operations, our management has established internal procedures to monitor our bank balances and cash, investments to be placed and entered into with financial institution of good reputation. These internal procedures help to minimize our credit risk exposure.

The credit risk on bank balances and pledged bank deposits is limited because the counterparties are banks with high credit rating.

We have concentration of credit risk on amounts due from related parties. Amounts due from related parties amounted to RMB237.9 million, RMB972.3 million and RMB889.4 million as of December 31, 2015, 2016 and 2017, respectively. In the opinion of our Directors, credit risk is not significant as the counterparties are controlled by the controlling shareholders.

Due to the nature of our business, we have significant concentration of credit risk on a number of customers. During the years ended December 31, 2015, 2016 and 2017, the aggregate amount of our revenue amount to our top three telecom operators was RMB4,622.3 million, RMB4,644.6 million and RMB4,755.6 million, representing 97.0%, 95.6% and 96.1% of our total revenue for the years indicated, respectively; the aggregated balance of our trade and note receivables from the top three customers was RMB691.7 million, RMB705.9 million and RMB816.2 million, representing 87.8%, 91.0% and 91.9% of our total trade and note receivables as of December 31, 2015, 2016 and 2017, respectively. In addition, our concentration of credit risk by geographical locations is solely in the PRC. In the opinion of our Directors, those customers are mainly large telecommunication companies owned by the PRC government with good financial backgrounds.

### Liquidity Risk

Ultimate responsibility for liquidity risk management rests with our Directors, who have established an appropriate liquidity risk management framework for the management of our short-, medium- and long-term funding and liquidity management requirements. We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

### Foreign Currency Risk

During the Track Record Period, we had bank balances and bank borrowings which were denominated in foreign currencies, mainly the U.S. dollars, exposing us to currency risk. We do not

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## FINANCIAL INFORMATION

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use any derivative contracts to hedge against our exposure to currency risk. Our management manages our currency risk by monitoring the movement of the foreign currency exchange rates and considering hedging significant foreign currency exposure should such need arise.

### *Foreign currency sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to foreign currency rates and includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external bank borrowings from the PRC banks’ oversea branches. A 5% increase or decrease is used when reporting foreign currency rate risk internally to key management personnel and represents our management’s assessment of the reasonably possible change in foreign currency rates.

If RMB has been appreciated/depreciated 5% against the foreign currency and all other variable were held constant, our post-tax profit in 2015, 2016 and 2017 would increase/decrease by RMB11.8 million, RMB18.0 million and RMB13.0 million, respectively. This is mainly attributable to our exposure to foreign currency rates of US\$ on our bank borrowings and the foreign currency bank balances as of December 31, 2015, 2016 and 2017.

### **Interest Rate Risk**

We are exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, pledged bank deposits and bank balances. See Note 40 to the Accountant’s Report included in Appendix I to this [REDACTED]. We keep our bank borrowings, pledged bank deposits and bank balances at floating rate of interests so as to minimize the fair value interest rate risk. Our cash flow interest rate risk is mainly concentrated on the fluctuation of the Benchmark Lending Rate of the London Interbank Offered Rate arising from our U.S. dollars denominated borrowings. We are also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings.

We currently do not have interest rate hedging policy to mitigate interest rate risk. However, we monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

### **DIVIDEND POLICY**

In 2015, AsiaInfo Technologies HK declared a dividend of approximately RMB2.2 billion to its immediate holding company, AsiaInfo Holdings. Approximately RMB1.6 billion of such dividend was settled during the Track Record Period by (i) transferring our investment in Bonson BVI to AsiaInfo Holdings, (ii) offsetting a portion of the amounts due from AsiaInfo Holdings from its transfer of the Privatization Syndicated Loan to us, and (iii) making a cash dividend payment of RMB0.4 billion to AsiaInfo Holdings in 2016. The remaining balance of RMB0.6 billion was offset against amounts due from related parties on our balance sheet as of December 31, 2016 and 2017. We did not declare or pay

## FINANCIAL INFORMATION

any other dividend during the Track Record Period. In May 2018, we declared a dividend in the amount of approximately RMB0.7 billion to AsiaInfo Holdings, which was offset against amounts due from AsiaInfo Holdings.

We do not currently have a fixed dividend payout ratio. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, future development requirements and other factors that our Directors may consider relevant. Our Articles and any other applicable laws and regulations may also be considered relevant.

### DISTRIBUTABLE RESERVES

As of March 31, 2018, our reserves available for distribution to our equity holders, or our retained profits, amounted to RMB1,064.6 million.

### DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this [REDACTED], we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

### UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets is based on our combined net tangible assets as of March 31, 2018 contained in the condensed combined financial statements in Appendix IA to this [REDACTED] and adjusted as described below:

|  | Unaudited<br>combined<br>net tangible<br>assets of the<br>Group<br>attributable<br>to owners<br>of the<br>Company<br>as of<br>March 31,<br>2018 <sup>(1)</sup> | Estimated [REDACTED]<br>from the<br>[REDACTED] <sup>(2)</sup> | Unaudited pro<br>forma<br>adjusted combined<br>net tangible assets<br>of the Group<br>attributable to<br>owners of the<br>Company as of<br>March 31, 2018 | Unaudited pro forma adjusted<br>combined net tangible assets<br>of the Group attributable to<br>owners of the Company per<br>Share as of March 31, 2018 |                     |
|--|--|---|---|---|---------------------|
|  | (RMB'000)  | (RMB'000)   | (RMB'000)   | RMB <sup>(3)</sup>  | HK\$ <sup>(4)</sup> |
| Based on [REDACTED] of<br>HK\$[REDACTED] per Share . . . . . | 911,657  | [REDACTED]  | [REDACTED]  | [REDACTED]  | [REDACTED]          |
| Based on [REDACTED] of<br>HK\$[REDACTED] per Share . . . . . | 911,657  | [REDACTED]  | [REDACTED]  | [REDACTED]  | [REDACTED]          |

(1) The unaudited combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 is based on the combined net assets of the Group attributable to owners of the Company amounted to RMB2,896,435,000 less goodwill and intangible assets amount to RMB1,932,246,000 and RMB52,532,000, respectively, extracted from the Unaudited Condensed Combined Financial Statements of the Group set out in Appendix IA to this [REDACTED].

(2) The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] new Shares to be issued at an indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per new Share, being the lower limit and higher limit of the indicative range of the [REDACTED], respectively, after deduction of the estimated [REDACTED] expenses (including [REDACTED] fees and other related expenses) expected to be incurred by the Group subsequent to March 31, 2018 and does not take into account of any Shares which may be issued upon exercise of options that may be granted under the [REDACTED] Share Option Scheme as referred to in the paragraph headed “[REDACTED] Share Option Scheme and [REDACTED] RSA Scheme” under the section headed “Share Capital” to the [REDACTED] or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed “General mandate to issue shares” or “General mandate to repurchase shares” under the section headed “Share Capital” to the [REDACTED], as the case may be.

(3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 per Share is calculated based on [REDACTED] Shares, being the number of Shares expected to be in issue immediately following the

## **FINANCIAL INFORMATION**

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completion of the [REDACTED] and taken into account of the issuance of the ordinary shares as part of the reorganization for the purpose of the [REDACTED] as set out in Note 2 to the Accountants’ Report in Appendix I to this [REDACTED]. It does not take into account of any Shares which may be issued upon exercise of options that may be granted under the [REDACTED] Share Option Scheme as referred to in the paragraph headed “[REDACTED] Share Option Scheme and [REDACTED] RSA Scheme” under the section headed “Share Capital” to the [REDACTED] or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed “General mandate to issue shares” or “General mandate to repurchase shares” under the section headed “Share Capital” to the [REDACTED], as the case may be.

- (4) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of RMB0.86566 to HK\$1.00.

### **DIRECTORS’ CONFIRMATION ON NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this [REDACTED], there has been no material adverse change in our financial or prospects since March 31, 2018 (the date of the latest unaudited financial statements of the Company) and there is no event since March 31, 2018 which would materially affect the information shown in the accountants’ reports set out in Appendix I and Appendix IA to this [REDACTED].

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## FUTURE PLANS AND [REDACTED]

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### FUTURE PLANS

See the section headed “Business—Our Strategies” for a detailed description of our future plans.

#### [REDACTED]

We estimate that we will [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million (after deducting [REDACTED] and other estimated expenses paid and payable by us in the [REDACTED]), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share, and that the [REDACTED] is not exercised. We intend to use the [REDACTED] of the [REDACTED] for the following purposes:

- (i) approximately [REDACTED], or HK\$[REDACTED], will be used to enhance our R&D capabilities and increase our presence and market share in the emerging data-driven operation services, IoT and intelligent network markets:
  - **Enhancement of R&D capabilities.** We plan to enhance our R&D capabilities by: (i) enhancing and upgrading our existing core products (such as by adding new features and functionalities) and developing new products applying new technologies such as IoT, AI and SDN/NFV, and (ii) researching in new technologies, participating in the research and formulation of technology and industry standards and establishing joint labs with universities;
  - **Increase presence and market share in emerging industry sectors.** We will continue to increase our presence and market share in the emerging data-driven operation services, IoT and intelligent network industry sectors through in-house research and development as well as strategic alliances with third parties;
- (ii) approximately [REDACTED], or HK\$[REDACTED], will be used to repay a portion of each of the following outstanding bank loans, including (i) a one-year loan from China Merchants Bank Hong Kong branch with a principal amount of US\$91 million and a variable interest rate based on three-month LIBOR plus 150 basis points, which will mature on February 14, 2019 and can be extended for another year, and (ii) a one-year loan facility of US\$34 million from East West Bank, with a variable interest rate based on one-month LIBOR plus 200 basis points, which will mature on October 30, 2018 and we plan to extend such loan for another year;
- (iii) approximately [REDACTED], or HK\$[REDACTED], will be used to selectively pursue strategic investments and acquisitions that will enable us to broaden our business scope and explore the application of emerging technologies in our products and services. We intend to invest in or acquire assets and businesses that complement our business and are consistent with our development strategies (such as developers of innovative software products), in order to accelerate our expansion in new business areas and complement our software product and service capabilities in these areas. As of the Latest Practicable Date, we had not entered into any binding commitment, whether oral or written, for any business or asset acquisitions; and
- (iv) the remaining approximately [REDACTED], or HK\$[REDACTED], will be used for our working capital and other general corporate purposes.

The above allocation of the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the midpoint of the estimated [REDACTED] range.



## FUTURE PLANS AND [REDACTED]

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In the event that the [REDACTED] is exercised in full, we estimate that we will receive additional [REDACTED] of approximately HK\$[REDACTED], after deducting [REDACTED], fees and other estimated expenses payable by us, assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share). We intend to apply all additional [REDACTED] for the same purposes as set out above on a pro rata basis.

If the [REDACTED] is set at the high-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share, the [REDACTED] from the [REDACTED] will increase by approximately HK\$[REDACTED] (assuming the [REDACTED] is not exercised) or approximately HK\$[REDACTED] (assuming the [REDACTED] is exercised in full), in which case we intend to apply the additional [REDACTED] as set out above on a pro rata basis. If the [REDACTED] is set at the low-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share, the [REDACTED] from the [REDACTED] will decrease by approximately HK\$[REDACTED] (assuming the [REDACTED] is not exercised) or approximately HK\$[REDACTED] (assuming the [REDACTED] is exercised in full), in which case we intend to reduce the [REDACTED] applied for the same purposes as set out above on a pro rata basis.

To the extent that the [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

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[REDACTED]

*The following is the text of a report set out on pages [I-1] to [I-[103]], received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this [REDACTED].*



**ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ASIAINFO TECHNOLOGIES LIMITED, CLSA CAPITAL MARKETS LIMITED AND CITIGROUP GLOBAL MARKETS ASIA LIMITED**

**Introduction**

We report on the historical financial information of AsiaInfo Technologies Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [I-3] to [I-[103]], which comprises the combined statements of financial position as at December 31, 2015, 2016 and 2017, the statements of financial position of the Company as at December 31, 2015, 2016 and 2017, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages [I-3] to [I-[103]] forms an integral part of this report, which has been prepared for inclusion in the [REDACTED] of the Company dated [Date] (the “[REDACTED]”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

**Directors’ responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants’ responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical

Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s and the Company’s financial position as at December 31, 2015, 2016 and 2017 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

### **REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

### *Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page [I-3] have been made.

### *Dividends*

We refer to Note [37] to the Historical Financial Information which contains information about the dividends paid by a subsidiary of the Company in respect of the Track Record Period.

[Deloitte Touche Tohmatsu]  
Certified Public Accountants

Hong Kong

[Date]

## **HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

### **Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of AsiaInfo Technologies (H.K.) Limited (“AsiaInfo Technologies HK”) and its subsidiaries (the “Underlying Financial Statements”) for the Track Record Period. The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The Underlying Financial Statements of AsiaInfo Technologies HK and its subsidiaries were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|  | Notes | Year ended December 31, |                 |                 |
|--|-------|-------------------------|-----------------|-----------------|
|  |       | 2015<br>RMB’000         | 2016<br>RMB’000 | 2017<br>RMB’000 |
| <b>Continuing operations</b>   |       |                         |                 |                 |
| Revenue  | 6     | 4,764,871               | 4,855,953       | 4,948,324       |
| Cost of sales  |       | (2,991,246)             | (3,183,328)     | (3,277,896)     |
| Gross profit   |       | 1,773,625               | 1,672,625       | 1,670,428       |
| Other income   | 7     | 92,258                  | 141,791         | 114,712         |
| Other gains and losses   | 8     | (4,096)                 | (45,228)        | 68,828          |
| Selling and marketing expenses   |       | (572,945)               | (614,572)       | (481,831)       |
| Administrative expenses  |       | (255,754)               | (273,079)       | (403,800)       |
| Research and development expenses  |       | (629,601)               | (636,614)       | (430,246)       |
| Share of results of associates   |       | —                       | —               | 258             |
| Share of results of a joint venture  |       | —                       | (10,000)        | —               |
| Finance costs  | 9     | (6,075)                 | (93,905)        | (83,986)        |
| [REDACTED]   |       | —                       | —               | (30,603)        |
| Profit before tax  |       | 397,412                 | 141,018         | 423,760         |
| Income tax expenses  | 10    | (87,622)                | (66,998)        | (88,584)        |
| Profit for the year from continuing operations   | 11    | 309,790                 | 74,020          | 335,176         |
| <b>Discontinued operations</b>   |       |                         |                 |                 |
| Loss for the year from discontinued operations   | 12    | (420,462)               | (294,873)       | (17,233)        |
| (Loss) profit for the year   |       | (110,672)               | (220,853)       | 317,943         |
| Other comprehensive income (expense) for the year:   |       |                         |                 |                 |
| <i>Items that may be subsequently reclassified to profit or loss:</i>  |       |                         |                 |                 |
| Change in fair value of an available-for-sale investment, net of tax   |       | 971                     | —               | —               |
| Release of translation reserve upon disposal of subsidiaries   |       | (10,464)                | 11,594          | (450)           |
| Reclassification adjustments to profit or loss during the year upon disposal of an available-for-sale investment, net of tax |       | (13,491)                | —               | —               |
| Exchange differences arising on translation of foreign operations  |       | 381                     | 2,422           | 3,813           |
|  |       | (22,603)                | 14,016          | 3,363           |
| Total comprehensive (expense) income for the year  |       | (133,275)               | (206,837)       | 321,306         |
| (Loss) profit for the year attributable to:  |       |                         |                 |                 |
| Owners of the Company  |       | (105,212)               | (211,415)       | 328,765         |
| Non-controlling interests  | 36    | (5,460)                 | (9,438)         | (10,822)        |
|  |       | (110,672)               | (220,853)       | 317,943         |
| Total comprehensive (expense) income for the year attributable to:   |       |                         |                 |                 |
| Owners of the Company  |       | (127,815)               | (197,427)       | 332,162         |
| Non-controlling interests  | 36    | (5,460)                 | (9,410)         | (10,856)        |
|  |       | (133,275)               | (206,837)       | 321,306         |
| Profit (loss) for the year attributable to the owners of the Company from:   |       |                         |                 |                 |
| Continuing operations  |       | 309,837                 | 81,315          | 338,174         |
| Discontinued operations  |       | (415,049)               | (292,730)       | (9,409)         |
|  |       | (105,212)               | (211,415)       | 328,765         |
| Loss for the year attributable to the non-controlling interests from:  |       |                         |                 |                 |
| Continuing operations  |       | (47)                    | (7,295)         | (2,998)         |
| Discontinued operations  |       | (5,413)                 | (2,143)         | (7,824)         |
|  |       | (5,460)                 | (9,438)         | (10,822)        |

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

|  | Notes | At December 31, |           |           |
|--|-------|-----------------|-----------|-----------|
|  |       | 2015            | 2016      | 2017      |
|  |       | RMB'000         | RMB'000   | RMB'000   |
| <i>Non-current assets</i>                              |       |                 |           |           |
| Property, plant and equipment                          | 15    | 314,164         | 303,979   | 262,629   |
| Prepaid lease payments                                 | 16    | 145,677         | 87,508    | 85,489    |
| Intangible assets                                      | 17    | 212,986         | 116,707   | 60,452    |
| Goodwill   | 18    | 1,932,246       | 1,932,246 | 1,932,246 |
| Investments in associates                              | 19    | 14,025          | 12,704    | 56,258    |
| Investments in joint ventures                          | 20    | 4,491           | 2,300     | —         |
| Available-for-sale investments                         | 22    | 8,000           | 8,000     | —         |
| Amounts due from fellow subsidiaries                   | 43    | 23,004          | 68,698    | 23,339    |
| Amounts due from immediate holding company             | 43    | 71,960          | 597,235   | 614,150   |
| Deferred tax assets                                    | 33    | 122,911         | 168,103   | 194,389   |
| Pledged bank deposits                                  | 28    | 45,379          | 71,020    | 39,669    |
| Derivative financial instruments                       | 29    | 9,643           | —         | —         |
| Other non-current assets                               | 23    | 33,970          | 50,075    | 46,247    |
| Total non-current assets                               |       | 2,938,456       | 3,418,575 | 3,314,868 |
| <i>Current assets</i>                                  |       |                 |           |           |
| Inventories  | 24    | 31,817          | 2,297     | 7,100     |
| Trade and notes receivables                            | 25    | 787,491         | 775,888   | 888,445   |
| Prepayments, deposits and other receivables            | 26    | 154,345         | 204,335   | 176,501   |
| Available-for-sale investments                         | 22    | —               | 20,000    | 3,665     |
| Derivative financial instruments                       | 29    | 749             | —         | —         |
| Contract assets  | 27    | 1,650,905       | 1,683,234 | 1,632,039 |
| Amounts due from fellow subsidiaries                   | 43    | 142,947         | 193,785   | 246,244   |
| Amounts due from an associate                          | 43    | 14              | 13,203    | —         |
| Amounts due from intermediate holding companies        | 43    | —               | —         | 5,645     |
| Pledged bank deposits                                  | 28    | 230,704         | 523,770   | 537,089   |
| Bank balances and cash                                 | 28    | 1,409,205       | 1,583,120 | 1,450,588 |
| Total current assets                                   |       | 4,408,177       | 4,999,632 | 4,947,316 |
| <i>Current liabilities</i>                             |       |                 |           |           |
| Trade and notes payables                               | 30    | 601,778         | 792,246   | 612,500   |
| Contract liabilities                                   | 27    | 647,356         | 533,536   | 387,913   |
| Other payables, deposits received and accrued expenses | 31    | 1,540,866       | 1,611,040 | 1,890,500 |
| Amount due to a joint venture                          | 43    | —               | 2,482     | —         |
| Amounts due to fellow subsidiaries                     | 43    | 278,404         | 290,712   | 200,672   |
| Amount due to ultimate holding company                 |       | —               | 5,134     | —         |
| Income tax payable                                     |       | 125,183         | 201,770   | 238,820   |
| Bank borrowings  | 32    | 422,352         | 1,237,502 | 1,154,593 |
| Total current liabilities                              |       | 3,615,939       | 4,674,422 | 4,484,998 |
| Net current assets                                     |       | 792,238         | 325,210   | 462,318   |
| Total assets less current liabilities                  |       | 3,730,694       | 3,743,785 | 3,777,186 |
| <i>Non-current liabilities</i>                         |       |                 |           |           |
| Deferred tax liabilities                               | 33    | 103,682         | 109,343   | 130,971   |
| Bank borrowings  | 32    | 1,025,440       | 1,039,485 | 592,744   |
| Amounts due to fellow subsidiaries                     | 43    | —               | —         | 14,695    |
| Other non-current liabilities                          |       | 3,175           | 8,726     | —         |
| Total non-current liabilities                          |       | 1,132,297       | 1,157,554 | 738,410   |
| Net assets   |       | 2,598,397       | 2,586,231 | 3,038,776 |
| <i>Capital and reserves</i>                            |       |                 |           |           |
| Paid-in/share capital                                  | 35    | 285,200         | 285,200   | —         |
| Reserves   | 38    | 2,309,092       | 2,274,616 | 3,018,835 |
| Equity attributable to owners of the Company           |       | 2,594,292       | 2,559,816 | 3,018,835 |
| Non-controlling interests                              | 36    | 4,105           | 26,415    | 19,941    |
| Total equity   |       | 2,598,397       | 2,586,231 | 3,038,776 |

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

|                                    | Notes | At December 31, |                 |                 |
|------------------------------------|-------|-----------------|-----------------|-----------------|
|                                    |       | 2015<br>RMB’000 | 2016<br>RMB’000 | 2017<br>RMB’000 |
| <i>Non-current asset</i>           |       |                 |                 |                 |
| Investments in subsidiaries .....  | 21    | 71,430          | 76,305          | 81,598          |
| <i>Current assets</i>              |       |                 |                 |                 |
| Amount due from a subsidiary ..... |       | —               | —               | 3,626           |
| Deferred [REDACTED] .....          |       | —               | —               | 5,026           |
| Bank balances and cash .....       | 28    | 3,604           | 3,851           | 2               |
| Total current assets .....         |       | 3,604           | 3,851           | 8,654           |
| <i>Current liability</i>           |       |                 |                 |                 |
| Amounts due to subsidiaries .....  |       | 32,437          | 34,651          | 32,638          |
| Accrued [REDACTED] .....           |       | —               | —               | 31,153          |
|                                    |       | 32,437          | 34,651          | 63,791          |
| Net current liabilities .....      |       | (28,833)        | (30,800)        | (55,137)        |
| Net assets .....                   |       | 42,597          | 45,505          | 26,461          |
| <i>Capital and reserves</i>        |       |                 |                 |                 |
| Share capital .....                | 35    | 8               | 8               | 8               |
| Reserves .....                     | 38    | 42,589          | 45,497          | 26,453          |
| Total equity .....                 |       | 42,597          | 45,505          | 26,461          |



APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CHANGES IN EQUITY

|   | Attributable to the owners of the Company |                  |                      |                                      |                        |                                 |                  |                     |             |                              |                 |
|---|---|------------------|----------------------|--------------------------------------|------------------------|---------------------------------|------------------|---------------------|-------------|------------------------------|-----------------|
|   | Paid-in/<br>share<br>capital              | Share<br>premium | Merger<br>reserve    | Investment<br>revaluation<br>reserve | Translation<br>reserve | Statutory<br>surplus<br>reserve | Other<br>reserve | Retained<br>profits | Sub-total   | Non-controlling<br>interests | Total<br>equity |
|   | RMB'000<br>(note vi)                      | RMB'000          | RMB'000<br>(note ii) | RMB'000                              | RMB'000                | RMB'000<br>(note i)             | RMB'000          | RMB'000             | RMB'000     | RMB'000                      | RMB'000         |
| At January 1, 2015  | —   | 135,775          | —                    | 12,520                               | (13,064)               | 176,775                         | 899,498          | 3,181,545           | 4,393,049   | 1,232                        | 4,394,281       |
| Loss for the year   | —   | —                | —                    | (12,520)                             | (10,083)               | —                               | —                | (105,212)           | (105,212)   | (5,460)                      | (110,672)       |
| Other comprehensive expense for the year, net of tax            | —   | —                | —                    | (12,520)                             | (10,083)               | —                               | —                | —                   | (22,603)    | —                            | (22,603)        |
| Total comprehensive expense for the year                        | —   | —                | —                    | (12,520)                             | (10,083)               | —                               | —                | (105,212)           | (127,815)   | (5,460)                      | (133,275)       |
| Recognition of equity-settled share-based payments (Note 41)    | —   | —                | —                    | —                                    | —                      | —                               | 25,739           | —                   | 25,739      | —                            | 25,739          |
| Disposal of subsidiaries  | —   | —                | —                    | —                                    | —                      | (12,920)                        | 208,520          | 12,920              | 208,520     | —                            | 208,520         |
| Arising from merger under common control (note ii)              | 285,200                                   | —                | —                    | —                                    | —                      | —                               | —                | —                   | 285,200     | —                            | 285,200         |
| Capital contribution from non-controlling shareholders          | —   | —                | —                    | —                                    | —                      | —                               | 116              | —                   | 116         | 9,232                        | 9,348           |
| Acquisition of additional equity interest in a subsidiary       | —   | —                | —                    | —                                    | —                      | —                               | 741              | —                   | 741         | (741)                        | —               |
| Dividend distribution   | —   | —                | —                    | —                                    | —                      | —                               | —                | (2,191,258)         | (2,191,258) | (158)                        | (2,191,416)     |
| Transfer to statutory reserve                                   | —   | —                | —                    | —                                    | —                      | 11,908                          | —                | (11,908)            | —           | —                            | —               |
| At December 31, 2015  | 285,200                                   | 135,775          | —                    | —                                    | (23,147)               | 175,763                         | 1,134,614        | 886,087             | 2,594,292   | 4,105                        | 2,598,397       |
| Loss for the year   | —   | —                | —                    | —                                    | —                      | —                               | —                | (211,415)           | (211,415)   | (9,438)                      | (220,853)       |
| Other comprehensive income (expense) for the year, net of tax   | —   | —                | —                    | —                                    | 13,988                 | —                               | —                | —                   | 13,988      | 28                           | 14,016          |
| Total comprehensive income (expense) for the year               | —   | —                | —                    | —                                    | 13,988                 | —                               | —                | (211,415)           | (197,427)   | (9,410)                      | (206,837)       |
| Recognition of equity-settled share-based payments (Note 41)    | —   | —                | —                    | —                                    | —                      | —                               | 35,675           | —                   | 35,675      | —                            | 35,675          |
| Lapse of share options  | —   | —                | —                    | —                                    | —                      | —                               | (108)            | 108                 | —           | —                            | —               |
| Disposal of subsidiaries  | —   | —                | —                    | —                                    | —                      | —                               | (22,512)         | —                   | (22,512)    | —                            | (22,512)        |
| Capital contribution from non-controlling shareholders (note v) | —   | —                | —                    | —                                    | —                      | —                               | 179,367          | —                   | 179,367     | 37,633                       | 217,000         |
| Acquisition of additional interests in a subsidiary (note iii)  | —   | —                | —                    | —                                    | —                      | —                               | (29,045)         | —                   | (29,045)    | (5,646)                      | (34,691)        |
| Transfer to statutory reserve                                   | —   | —                | —                    | —                                    | —                      | 62                              | —                | (62)                | —           | —                            | —               |
| Dissolution of a subsidiary                                     | —   | —                | —                    | —                                    | —                      | —                               | (534)            | —                   | (534)       | (267)                        | (801)           |
| At December 31, 2016  | 285,200                                   | 135,775          | —                    | —                                    | (9,159)                | 175,825                         | 1,297,457        | 674,718             | 2,559,816   | 26,415                       | 2,586,231       |
| Profit (loss) for the year                                      | —   | —                | —                    | —                                    | 3,397                  | —                               | —                | 328,765             | 328,765     | (10,822)                     | 317,943         |
| Other comprehensive income (expense) for the year, net of tax   | —   | —                | —                    | —                                    | 3,397                  | —                               | —                | —                   | 3,397       | (34)                         | 3,363           |
| Total comprehensive income (expense) for the year               | —   | —                | —                    | —                                    | 3,397                  | —                               | —                | 328,765             | 332,162     | (10,856)                     | 321,306         |
| Recognition of equity-settled share-based payments (Note 41)    | —   | —                | —                    | —                                    | —                      | —                               | 73,489           | —                   | 73,489      | —                            | 73,489          |
| Lapse of share options  | —   | —                | —                    | —                                    | —                      | (3,812)                         | (1,948)          | 1,948               | —           | —                            | —               |
| Disposal of subsidiaries (note iv)                              | —   | —                | —                    | —                                    | —                      | —                               | 53,368           | 3,812               | 53,368      | 4,382                        | 57,750          |
| Arising from the group reorganization (note ii)                 | (285,200)                                 | —                | —                    | —                                    | —                      | —                               | —                | —                   | —           | —                            | —               |
| Transfer to statutory reserve                                   | —   | —                | —                    | —                                    | —                      | 1,832                           | —                | (1,832)             | —           | —                            | —               |
| At December 31, 2017  | —   | 135,775          | 285,200              | —                                    | (5,762)                | 173,845                         | 1,422,366        | 1,007,411           | 3,018,835   | 19,941                       | 3,038,776       |

COMBINED STATEMENTS OF CHANGES IN EQUITY—continued

*Notes:*

- (i) In accordance with the Articles of Association of all subsidiaries established in the People’s Republic of China (the “PRC”), the PRC subsidiaries are required to set aside 10% of their profit after tax as per statutory financial statements determined under the PRC laws and regulations for the statutory surplus reserve fund until the reserve reach 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries. The statutory surplus reserve can be used to make up previous years’ losses, expand the existing operations or convert into additional capital of the respective subsidiaries.
- (ii) In December 2017, AsiaInfo Technologies HK acquired 100% equity interest of AsiaInfo Big Data Limited (“AsiaInfo Big Data”) for a consideration of nil. As both AsiaInfo Technologies HK and AsiaInfo Big Data were both controlled by the same holding company, Skipper Holdings Limited (“Skipper Holdings”), the acquisition was regarded as a business combination under common control. Accordingly, the Historical Financial Information has been prepared as if AsiaInfo Big Data has been included in the Group since its inception. As AsiaInfo Big Data was established in June 6, 2014, the capital contribution amount of RMB285,200,000 invested into AsiaInfo Big Data was shown as an increase in merger reserve in the combined statements of changes in equity.
- (iii) During the year ended December 31, 2016, the Group acquired 49% non-controlling interest in Guangzhou AsiaInfo Big Data Limited (“Guangzhou AsiaInfo Big Data”) from a third-party individual for a total consideration of RMB34,691,000. The difference between the cash paid and the carrying amount of the non-controlling interest, amounting to RMB29,045,000, was recognized in other reserve. Upon the acquisition, Guangzhou AsiaInfo Big Data became a wholly-owned subsidiary of the Group.
- (iv) In September 2017, the Group sold its entire 88% equity interest in AsiaInfo Software Limited (“Software BVI”) and its subsidiaries to AsiaInfo Innovation Limited (“Innovation BVI”), a company that is wholly-owned by AsiaInfo Cayman Limited (“AsiaInfo Cayman”), the parent company of the Group, for a cash consideration of RMB22,000 (Note 44). As these entities being disposed of are under the common control of AsiaInfo Cayman, the transaction is accounted for as an equity transaction with the difference between the cash received and carry amount of the subsidiaries being recorded in other reserve.
- (v) The amount represents two capital contributions from non-controlling shareholders, one of which resulted in an increase in the non-controlling interest amount of RMB7,000,000 when a third-party company injected in Xianyang AsiaInfo Innovation Technologies Limited for 44.75% equity interest.

In addition, on August 11, 2016, the Group entered into agreements with certain third-party companies, pursuant to which the third-party companies made an aggregated capital injection of RMB210,000,000 to acquire 7.977% equity interests in Beijing AsiaInfo Smart Big Data Co., Ltd. (“Smart Big Data”), which was previously fully owned by the Group. As Smart Big Data had a net assets of RMB124,031,000 on the date of injection, the contribution of the non-controlling shareholders resulted in an increase of non-controlling interest balance amount of RMB30,633,000.

- (vi) The paid-in share capital of the Group as at December 31, 2015, 2016 and 2017 represented the share capital of AsiaInfo Technologies HK and the paid-in capital of AsiaInfo Big Data prior to the completion of the group reorganization.

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CASH FLOWS

|  | Year ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2015                    | 2016      | 2017      |
|  | RMB’000                 | RMB’000   | RMB’000   |
| Cash flows from operating activities                               |                         |           |           |
| Profit before tax from continuing operations                       | 397,412                 | 141,018   | 423,760   |
| Loss before tax from discontinued operations                       | (417,825)               | (292,312) | (17,233)  |
| Adjustments for:   |                         |           |           |
| Depreciation of property, plant and equipment                      | 58,187                  | 36,086    | 35,744    |
| Amortization of intangible assets                                  | 136,707                 | 97,608    | 55,301    |
| Amortization of prepaid lease payments                             | 2,501                   | 2,405     | 2,019     |
| (Gain) loss on disposal of property, plant and equipment           | (2,943)                 | (3,894)   | 5,135     |
| Loss on disposal of intangible assets                              | 391                     | 8,132     | 413       |
| Gain on disposal of subsidiaries                                   | (10,464)                | (37,169)  | (37,647)  |
| Finance costs  | 6,075                   | 93,905    | 83,986    |
| Net foreign exchange loss (gain)                                   | 3,176                   | 87,553    | (70,376)  |
| Gain on fair value change of financial instruments                 | (12,855)                | —         | —         |
| Interest income from related parties                               | (3,586)                 | (19,649)  | (19,001)  |
| Interest income from current bank accounts                         | (17,293)                | (14,721)  | (19,018)  |
| Interest income from available-for-sale investments                | (14,503)                | (177)     | —         |
| Impairment loss of an available-for-sale investment                | —                       | —         | 4,335     |
| Impairment loss of intangible assets                               | —                       | —         | 2,200     |
| Impairment loss of inventories                                     | 17,281                  | —         | 110       |
| Allowance for trade receivables                                    | 1,113                   | 671       | 4,714     |
| Allowance for other receivables                                    | 1,586                   | 1,525     | 1,123     |
| Share-based compensation expenses                                  | 25,739                  | 35,675    | 73,489    |
| Share of results of associates                                     | (1,275)                 | 1,321     | 1,315     |
| Share of results of joint ventures                                 | 1,628                   | 15,191    | 646       |
| Operating cash flows before movements in working capital           | 171,052                 | 153,168   | 531,015   |
| (Increase) decrease in inventories                                 | (17,789)                | 29,520    | (5,001)   |
| (Increase) decrease in trade and notes receivables                 | (94,968)                | 10,932    | (133,763) |
| Increase in prepayment, deposits and other receivables             | (20,856)                | (135,434) | (10,601)  |
| Increase in contract assets  | (636,960)               | (32,329)  | (15,031)  |
| (Increase) decrease in amounts due from fellow subsidiaries        | (133,595)               | (109,722) | 6,103     |
| Increase in amounts due from associates                            | —                       | —         | (5,826)   |
| (Increase) decrease in other non-current assets                    | (27,110)                | (16,105)  | 3,828     |
| (Decrease) increase in amounts due to intermediate holding company | (42,160)                | 5,133     | (5,134)   |
| Increase (decrease) in amounts due to fellow subsidiaries          | 371,010                 | 33,212    | (28,034)  |
| Increase (decrease) in amounts due to a joint venture              | —                       | 2,482     | (2,482)   |
| Increase (decrease) in trade and notes payables                    | 100,257                 | 195,295   | (153,918) |
| Increase (decrease) in contract liabilities                        | 342,981                 | (113,820) | (131,255) |
| Increase in other payables, deposits received and accrued expenses | 358,217                 | 223,843   | 525,450   |
| Increase (decrease) in other non-current liabilities               | 8,354                   | 5,551     | (8,726)   |
| Cash generated from operating activities                           | 378,433                 | 251,726   | 566,625   |
| Income taxes paid  | (51,354)                | (29,942)  | (56,208)  |
| NET CASH GENERATED FROM OPERATING ACTIVITIES                       | 327,079                 | 221,784   | 510,417   |
| Cash flows from investing activities                               |                         |           |           |
| Purchases of property, plant and equipment                         | (56,377)                | (27,692)  | (10,289)  |
| Purchases of intangible assets                                     | (7,729)                 | (9,461)   | (1,659)   |
| Payment for land use rights  | (57,787)                | —         | —         |
| Payment for investment in associates                               | (12,750)                | —         | (56,000)  |
| Payment for investment in joint ventures                           | (6,120)                 | (13,000)  | —         |
| Purchases of available-for-sale investments                        | —                       | (20,000)  | —         |
| Proceeds on disposal of available-for-sale investments             | 60,082                  | —         | 20,000    |
| Purchases of derivative financial instruments                      | (749)                   | —         | —         |

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CASH FLOWS—continued

|   | Year ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2015                    | 2016             | 2017             |
|   | RMB’000                 | RMB’000          | RMB’000          |
| Net cash inflow (outflow) from disposal of subsidiaries .....   | 6,793                   | 23,568           | (32,615)         |
| Repayment from related parties .....  | —                       | 103,624          | 45,793           |
| Advance to related parties .....  | (80,924)                | (36,476)         | (66,976)         |
| Placement of pledged bank deposits .....  | (52,491)                | (342,334)        | (179,159)        |
| Withdrawal of pledged bank deposits .....   | 17,885                  | 23,627           | 197,191          |
| Interest received .....   | 12,090                  | 13,491           | 18,004           |
| NET CASH USED IN INVESTING ACTIVITIES .....   | <u>(178,077)</u>        | <u>(284,653)</u> | <u>(65,710)</u>  |
| Cash flows from financing activities  |                         |                  |                  |
| New bank borrowings raised .....  | 442,978                 | 1,619,931        | 1,515,450        |
| Repayment of bank borrowings .....  | (226,236)               | (899,833)        | (1,935,190)      |
| Interest paid .....   | (6,075)                 | (85,673)         | (81,379)         |
| Advance from related parties .....  | —                       | 5,134            | 14,695           |
| Repayment to related parties .....  | (245,243)               | (6,156)          | (5,271)          |
| Loans from fellow subsidiaries .....  | 79,000                  | 55,496           | —                |
| Repayments of loans from fellow subsidiaries .....  | —                       | (80,209)         | (56,345)         |
| Loans to ultimate holding company .....   | (144,043)               | (141,936)        | —                |
| Prepayment of accrued issue costs .....   | —                       | —                | (4,476)          |
| Proceeds from sales of derivative financial instruments and other financial assets .....                | 15,647                  | 10,392           | —                |
| Capital contribution from non-controlling interests .....   | 9,348                   | 217,000          | —                |
| Issuance of shares by AsiaInfo Big Data .....   | 285,200                 | —                | —                |
| Acquisition of additional interests in a subsidiary .....   | —                       | (34,691)         | —                |
| Dividend paid .....   | —                       | (445,355)        | —                |
| NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES .....  | <u>210,576</u>          | <u>214,100</u>   | <u>(552,516)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....  | 359,578                 | 151,231          | (107,809)        |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR .....  | 1,018,879               | 1,409,205        | 1,583,120        |
| Effect of exchange rate changes .....   | 30,748                  | 22,684           | (24,723)         |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR AT DECEMBER 31 REPRESENTED BY BANK BALANCES AND CASH ..... | <u>1,409,205</u>        | <u>1,583,120</u> | <u>1,450,588</u> |

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL

The Company was incorporated as a company with limited liability in the British Virgin Islands (“BVI”) on July 15, 2003. The address of the registered office of the Company and the principal place of business of the Company are disclosed in the section headed “Corporate Information” in the [REDACTED]. The Company changed its name from Linkage Technologies Investment Limited to AsiaInfo-Linkage Technologies Investment Limited on October 28, 2010, which was subsequently renamed as AsiaInfo Technologies Investment Limited on April 30, 2014, to AsiaInfo Technologies Limited (亞信科技有限公司) on June 28, 2018, and was further renamed to AsiaInfo Technologies Limited (亞信科技控股有限公司) on July 10, 2018.

The Company is an investment holding company. The principal activities of the Group are mainly engaged in provision of software products and related services.

The ultimate holding company of the Group throughout the Track Record Period and up to the date of issuance of the combined financial statements is Skipper Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on August 24, 2012, which is controlled by CITIC Capital Entities (“CITIC Capital”), which represents a group of entities including Skipper Investment Limited, Power Joy (Cayman) Limited, CITIC Capital China Partners II, L.P., CCP II GP, Ltd., CCP Ltd, CITIC Capital Partners Limited and CITIC Capital Holdings Limited.

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and its primary subsidiaries in the PRC.

### 2. REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the group reorganization (“Reorganization”) as set out in the section headed “History, Development and Reorganization” in the [REDACTED], the Company has become the holding company of the companies now comprising the Group on April 30, 2018. The Company and its subsidiaries have been under the common control of CITIC Capital throughout the Track Record Period, and before and after the Reorganization, or since their respective dates of incorporation, where there is a shorter period.

The main steps of the Reorganization are described below:

- (i) On April 29, 2018, the Company, AsiaInfo Holdings, LLC (“AsiaInfo Holdings”) and AsiaInfo Technologies HK entered into a deed of reorganization (the “Reorganization Deed”) pursuant to which the Company agreed to transfer all of the issued shares of Hong Kong AsiaInfo Technologies Limited (“HK AsiaInfo Technologies”) and AsiaInfo Big Data to AsiaInfo Technologies HK, in consideration for AsiaInfo Technologies HK transferring all issued 9,288 shares in the Company to AsiaInfo Holdings. Upon the completion of the transfer under the Reorganization Deed, the Company became a direct wholly-owned subsidiary of AsiaInfo Holdings, HK AsiaInfo Technologies and AsiaInfo Big Data continued to be indirect wholly-owned subsidiary of AsiaInfo Holdings.
- (ii) On April 30, 2018, the Company and AsiaInfo Holdings entered into a share transfer agreement pursuant to which the Company issued and allotted one new share to AsiaInfo Holdings in consideration for AsiaInfo Holdings transferring all of the issued shares of

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**2. REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION—continued**

The main steps of the Reorganization are described below:—continued

AsiaInfo Technologies HK to the Company. Immediately after the completion of the transfer, AsiaInfo Holdings held an aggregated 9,289 ordinary shares, representing the entire issued shares of the Company, and AsiaInfo Technologies HK continued to be a direct wholly-owned subsidiary of the Company.

- (iii) On June 26, 2018, a share surrender letter was signed by AsiaInfo Holdings pursuant to which AsiaInfo Holdings surrendered all of the held 9,289 ordinary shares of the Company. Upon the surrender of shares, AsiaInfo Holdings is no longer a shareholder of the Company. The Company stays an indirect wholly-owned subsidiary of Skipper Holdings.

Prior to obtaining control of the Group by the Company, it was controlled by Skipper Holdings. After the Company obtaining control of the Group, the Group was also controlled by Skipper Holdings. Therefore, the Group resulting from the Reorganization is regarded as a continuing entity and the Historical Financial Information of the Group has been prepared as if the Company had been the holding company of the Group throughout the Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period or since the respective dates of incorporation of the relevant companies now comprising the Group where there is a shorter period.

The combined statements of financial position of the Group as at December 31, 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates taking into account the respective dates of incorporation of the relevant companies now comprising the Group, where applicable.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in a jurisdiction where there are no statutory audit requirements.

**3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs**

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied HKFRSs, Hong Kong Accounting Standard (“HKAS”) amendments and the interpretations issued by the HKICPA that are effective for the accounting period beginning on January 1, 2017 throughout the Track Record Period. In addition, the Group has elected to early apply HKFRS 15 “*Revenue from Contracts with Customers*” throughout the Track Record Period.

*New and amendments to HKFRSs and interpretations in issue but not yet effective*

At the date of this report, the HKICPA has issued the following new and amendments to HKFRSs and interpretations that are not yet effective for the track record period. The Group has not



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs—continued

*New and amendments to HKFRSs and interpretations in issue but not yet effective—continued*

early applied the following new and amendments to HKFRSs and interpretations that have been issued but are not yet effective:

|                                    |  |
|------------------------------------|--|
| HKFRS 9                            | Financial Instruments <sup>1</sup>   |
| HKFRS 16                           | Leases <sup>2</sup>  |
| HKFRS 17                           | Insurance Contracts <sup>4</sup>   |
| HK(IFRIC)-Int 22                   | Foreign Currency Transactions and Advance Consideration <sup>1</sup>                               |
| HK(IFRIC)-Int 23                   | Uncertainty over Income Tax Treatments <sup>2</sup>  |
| Amendments to HKFRS 2              | Classification and Measurement of Share-based Payment Transactions <sup>1</sup>                    |
| Amendments to HKFRS 4              | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>               |
| Amendments to HKFRS 9              | Prepayment Features with Negative Compensation <sup>2</sup>  |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup> |
| Amendments to HKFRS 19             | Plan Amendment, Curtailment or Settlement <sup>2</sup>   |
| Amendments to HKAS 28              | Long-term Interests in Associates and Joint Ventures <sup>2</sup>                                  |
| Amendments to HKAS 28              | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>                          |
| Amendments to HKAS 40              | Transfers of Investment Property <sup>1</sup>  |
| Amendments to HKFRSs               | Annual Improvements to HKFRSs 2015 - 2017 Cycle <sup>2</sup>                                       |

1 Effective for annual periods beginning on or after January 1, 2018

2 Effective for annual periods beginning on or after January 1, 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after January 1, 2021

Except for the new and amendments to HKFRSs and interpretations described below, the directors of the Company anticipate that the application of other new and amendments to HKFRSs and interpretations will have no material impact on the Group’s combined financial statements in the foreseeable future.

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 where are relevant to the Group are described below:

- all recognized financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All



**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs—continued**

*New and amendments to HKFRSs and interpretations in issue but not yet effective—continued*

HKFRS 9 Financial instruments—continued

other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

*Classification and measurement*

The wealth management product classified as available-for-sale investments qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group has not elected the option for designating these investments to be measured at FVTOCI and will measure these investments at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, net fair value gains relating to these investments would be adjusted to retained earnings January 1, 2018.

The unlisted equity investments classified as available-for-sale investments will be measured at fair value with subsequent fair value gains or losses to be recognized in profit or loss.

All other financial assets and liabilities will continue to be measured on the same basis as are currently measured under HKAS 39.

*Impairment*

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier recognition of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortized costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables and contract assets as required or permitted under HKFRS 9. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognized by the Group as at January 1, 2018 would be increased as compared to the accumulated amount recognized under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and contract assets. Such further impairment recognized under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at January 1, 2018.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs—continued**

*New and amendments to HKFRSs and interpretations in issue but not yet effective—continued*

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognized an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of RMB377,124,000 as disclosed in Note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term lease upon the application of HKFRS 16.

In addition, the Group currently considers refundable rental deposits paid of RMB33,429,000 as at December 31, 2017 as rights under leases to which HKAS 17 applies, as disclosed in Note 23. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets accordingly, the carrying amounts of such deposits may be

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs—continued**

*New and amendments to HKFRSs and interpretations in issue but not yet effective—continued*

HKFRS 16 Leases—continued

adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the [REDACTED] of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on historical cost basis, except for certain financial instruments which are measured at fair value, at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

The principal accounting policies adopted are set out below.

Basis of combination

The Historical Financial Information incorporates the financial statements of the entities comprising the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the combined statements of profit or loss and other comprehensive (expense) income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Investment in a subsidiary

Investment in a subsidiary is stated in the statement of financial position of the Company at cost less any identified impairment loss.

Changes in the Group’s ownership interests in existing subsidiaries

Change in the Group’s ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Merger accounting for business combination involving business under common control

The Historical Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognized in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The combined statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these combined financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognized in the combined statements of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associates/joint venture other than profit or loss and other comprehensive (expense) income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group’s share of losses of an associate or joint venture exceeds the Group’s interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses.

Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Investments in associates and joint ventures—continued

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group’s combined financial statements only to the extent of interests in the associate or the joint venture that are not related to the Group.

Revenue recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.



**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Revenue recognition—continued

Revenue is measured at the fair value of the consideration received or receivable, net of business tax and value added tax (“VAT”).

The Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment on a regular and individual basis. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.



**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Revenue recognition—continued

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. The Group principally earns revenue from provision of software products and related services as well as a variety of other services including:

- Software business
  - Software products and related services
  - Data-driven operation services
  - Others
- Network security business

Specifically, revenue is recognized in profit or loss as follows:

*Software products and related services*

The Group primarily is engaged in (i) the provision of software products and related deployment services, and (ii) the provision of ongoing operation and maintenance services (“O&M services”).

(i) Software products and related deployment services

The software products and related deployment services include a comprehensive set of professional services, from demand analysis, project design and planning, software development and sourcing, system installation and launch to trial operation and acceptance, which are highly interrelated and significantly affected by other goods and services in the contract. The directors of the Company have assessed that the Group’s performance creates and enhances an asset that the customers control as the Group performs. Therefore, the directors of the Company have satisfied that there is only one single performance obligation and the services are satisfied over time.

Accordingly, revenue from software products and related deployment services, which are generally under project based development contracts, is recognized based on the stage of completion of the contract which is determined as the proportion of the costs incurred for the works (i.e. subcontracting costs, material costs and direct staff costs incurred) performed to date relative to the estimated total costs to complete the satisfaction of these services and the margin of each project, to the extent that the amount can be measured reliably and its recovery is considered probable.

(ii) O&M services

Upon the launch of a system from the software products and related deployment services the Group provided, customers typically engage the Group to provide ongoing O&M services to ensure the stable functioning of the system.

Pursuant to the contracts of rendering related O&M services, the transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring O&M services

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Revenue recognition—continued

*Software products and related services—continued*

(ii) O&M services—continued

to customers. Additionally, the O&M services typically meet the criterion where customers simultaneously receive and consume the benefits of the Group’s performance as the Group performs. The fact that another entity would not need to re-perform maintenance services for the service that the Group has provided to date also demonstrates that customers simultaneously receive and consume the benefits of the Group’s performance as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation of rendering O&M services is satisfied over time which is recognized over the service period.

*Data-driven operation services*

The Group provides data-driven operation services directly to telecom operators and/or in collaboration with telecom operators to the government and enterprise customers in relation to the rendering of comprehensive data operational analytics services to analyze customer behavior.

The directors of the Company have assessed that the data-driven operation service is one single performance obligation and the customers simultaneously receive and consume the benefits provided by the Group’s performance as the Group performs. Therefore, the directors of the Company have satisfied that the services are satisfied over time.

*Others*

The Group generates other revenues from sales of third-party hardware and software, system integration service, business consulting services and corporate trainings.

i. Sales of third-party hardware and software

Revenue is recognized at a point in time when the customer obtains control of the third-party hardware and software.

ii. Provision of services – *system integration services, business consulting services and corporate trainings*

The Group enters into system integration service agreements, consulting service agreements with telecom operators and large enterprises, the term of which generally ranges from two months to one year with a fixed contract price.

The performance obligation of provision of such services is satisfied over time. Revenue from rendering business consulting services and corporate trainings is recognized based on the services provided as the customers simultaneously receive and consume the service provided by the Group over the period. Revenue from rendering system integration services is recognized over time based on the stage of completion of the contract which is determined as the proportion of the cost incurred for the work performed to date relative to the estimated total costs to complete the satisfaction of these

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Revenue recognition—continued

*Others—continued*

- ii. Provision of services – *system integration services, business consulting services and corporate trainings—continued*

services and the margin of each project as the Group’s performance creates and enhances an asset that the customers control as the Group performs.

*Network security related software products and services*

The Group was engaged in providing network security related software products and services, which is similar to software products and related services, independently until November 2015 upon the Group disposed of AsiaInfo Technologies (Chengdu), Inc. (“AsiaInfo Chengdu”) and transformed the business model to provide similar network security related products and services to customers through outsourcing the entire work to AsiaInfo Chengdu (the “Network Security Transitional Arrangement”).

The directors of the Company have assessed that the Group’s services creates and enhances an asset that the customers control as the Group performs. Therefore, the directors of the Company have satisfied that the services are satisfied over time. Accordingly, revenue is recognized based on the stage of completion of the contract.

Some of the service contracts contain variable consideration in the form of cash payment based on final service evaluation result (usually in the form of a service evaluation score provided by the customer based on which cash payment is calculated). The Group estimates the amount of consideration to which it will be entitled using the most likely amount. The estimation of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, except for short-term receivables where the recognition of interest would be immaterial.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Short-term employee benefits—continued

A liability is recognized for benefits accruing to employee (such as wages and salaries) after deducting any amount already paid.

Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees’ salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees’ payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group’s contributions to the defined contribution retirement schemes are expensed as incurred.

Research and development costs

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

When no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments in respect of share options/restricted stock units (“RSUs”) determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity (other reserves). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions.

The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Share-based payment arrangements—continued

When share options are exercised or certified or when the RSUs are vested, the amount previously recognized in other reserves will continue to be held in other reserves.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will be transferred to retained profits.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the combined statements of profit or loss and other comprehensive income and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Taxation—continued

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill), the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Intangible assets

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives, except for the customer relationships being amortized on an accelerated basis over their estimated useful life. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets, the memberships, with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Prepaid lease payments

Land use rights represent prepayments for the land use rights in mainland China and are stated at cost initially and amortized on a straight-line basis over the lease terms.

Prepaid lease payments mainly represent payments for obtaining land use rights. Payment for obtaining land use rights is charged to profit or loss or included as part of costs of buildings under construction on a straight line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a first-in, first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Impairment losses on tangible and intangible assets other than goodwill—continued

asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an assets is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

The Group’s financial assets are classified into loans and receivables, AFS financial assets and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial instruments—continued

Financial assets—continued

and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and note receivables, other receivables, other non-current assets, amounts due from related parties, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

*AFS financial assets*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (1) loans and receivables, (2) held-to-maturity investments, or (3) financial assets at FVTPL.

Equity investments held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measure. Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established. Other changes in carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial instruments—continued

Financial assets—continued

*Derivative financial instruments*

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial instruments—continued

Financial assets—continued

*Impairment of financial assets—continued*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive (expense) income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognized at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Financial liabilities at amortized cost*

Financial liabilities including trade and notes payables, other payables, amounts due to related parties, bank borrowings are subsequently measured at amortized cost, using the effective interest method.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Financial instruments—continued

Financial liabilities and equity instruments—continued

*Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group’s accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations, that the Group has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognized in the Historical Financial Information.

*Judgments in determining the performance obligations*

In making their judgments, the Group considered the detailed criteria for recognition of revenue set out in HKFRS 15. In determining performance obligations, the directors of the Company consider whether the customer benefits from each service on its own and whether it is distinct in the context of the contract. Specifically, when concluding a contract has multiple performance obligations, the directors of the Company consider that the individual performance obligation is regularly satisfied separately and the service is separately identifiable from other promises within the contract.



**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY—continued**

**Critical judgments in applying accounting policies—continued**

*Judgments in determining the timing of satisfaction of performance obligations*

Note 4 describes the revenue recognition basis to each of the Group’s revenue stream. The recognition of each of the Group’s revenue stream requires judgment by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of the Company considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

For the Group’s software business and network security business, the directors of the Company has assessed that the Group’s performance creates and enhances an asset that the customer controls as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognized the revenue over the service period.

For O&M services included in the software business, the directors of the Company have determined that the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognized the revenue over the service period.

**Key Sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

*Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. The recoverable amount determination of the cash-generating units throughout the Track Record Period is based on the present value calculation which requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a further impairment loss may arise. As at December 31, 2015, 2016 and 2017, the carrying amount of goodwill was RMB1,932,246,000, RMB1,932,246,000 and RMB1,932,246,000, respectively. Details of the recoverable amount calculation are disclosed in Note 18.

*Useful life of property, plant and equipment and intangible assets with definite useful lives*

The management depreciates and amortizes the property, plant and equipment and intangible assets with definite useful lives on a straight-line basis over their estimated useful lives, respectively.



**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY—continued**

**Key Sources of estimation uncertainty—continued**

*Useful life of property, plant and equipment and intangible assets with definite useful lives—continued*

The estimated useful lives reflect the directors of the Company’s estimation of the periods that the future economic benefits can be derived from the usage of the Group’s property, plant and equipment and intangible assets with definite useful lives. If the estimated useful life did not reflect its actual useful life, additional depreciation and amortization may be required.

*Project-based development contracts*

Revenue from project-based development contracts is recognized under the percentage of completion method which requires estimation made by management. The directors of the Company estimate the contract costs, outcome and expected cost to complete the contracts based on the budgets prepared for the contracts. Due to the nature of the activities, the directors of the Company review and revise the estimates of both contract outcome and expected costs to complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to completion would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognized.

**6. REVENUE AND SEGMENT INFORMATION**

The Group’s revenue is primarily generated from project-based software development contracts, under which the Group develops software products and provides deployment services at other fixed prices and/or variable prices. Revenue is recognized net of sales related taxes.

The Group’s operating segments are determined based on information reported to the chief executive officer (“CEO”) of the Company, being the chief operating decision maker (“CODM”) of the Group for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services provided. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Affected by the change in the group’s business strategy, the Group changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change in the year of 2017. The segment information reported during the Track Record Period is presented to conform the change of internal reportable segments.

The business of the software research and development in Thailand, Malaysia, Nepal and other countries outside of the PRC (the “International Business”) was discontinued during the Track Record Period. The following information disclosed does not include any amounts for the discontinued operations, which are described in more details in Note 12.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. REVENUE AND SEGMENT INFORMATION—continued

Specifically, the Group’s reportable segments under HKFRS 8 are as follows:

|                            |  |
|----------------------------|--|
| Software business:         | Representing (1) software products and related services; (2) data-driven operation services; and (3) others, including sale of third-party hardware and software, system integration services, business consulting services and corporate trainings. |
| Network security business: | Representing provision of network security related software products and services.   |

The performance obligation of rendering software products and related deployment services is mainly derived from the project-based software development contracts and is satisfied over time which usually range from six months to eighteen months.

The rendering of data-driven operation services is mainly derived from telecom operators’ government and enterprise customers with fixed-price contracts to perform data analysis services to analyze customer behavior and operational efficiency. The performance obligation of rendering of data driven operation services is satisfied over time, ranging from fifteen days to six months.

The performance obligation of sale of third-party hardware and software is satisfied at a point in time when the control of hardware and software is transferred to the customer.

The performance obligation of rendering the network security related software products and services is satisfied over time generally ranging from six months to eighteen months.

**Disaggregation of revenue**

|                                      | Year ended December 31, |                  |                  |
|--------------------------------------|-------------------------|------------------|------------------|
|                                      | 2015                    | 2016             | 2017             |
|                                      | RMB’000                 | RMB’000          | RMB’000          |
| <i>Timing of revenue recognition</i> |                         |                  |                  |
| At a point in time .....             | 125,914                 | 197,521          | 129,060          |
| Over time .....                      | 4,638,957               | 4,658,432        | 4,819,264        |
|                                      | <u>4,764,871</u>        | <u>4,855,953</u> | <u>4,948,324</u> |
| <i>Types of goods and services</i>   |                         |                  |                  |
| Provision of services .....          | 4,640,569               | 4,672,060        | 4,828,000        |
| Sales of goods .....                 | 124,302                 | 183,893          | 120,324          |
|                                      | <u>4,764,871</u>        | <u>4,855,953</u> | <u>4,948,324</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. REVENUE AND SEGMENT INFORMATION—continued

Disaggregation of revenue—continued

|   | Year ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2015                    | 2016             | 2017             |
|   | RMB’000                 | RMB’000          | RMB’000          |
| <i>Nature of goods and services</i>                         |                         |                  |                  |
| Software business:  |                         |                  |                  |
| Software products and related deployment services . . . . . | 3,996,677               | 4,170,779        | 4,541,482        |
| Data-driven operation services . . . . .                    | 18,066                  | 31,383           | 41,745           |
| Others <sup>(i)</sup> . . . . .                             | 260,497                 | 312,483          | 241,652          |
| Network security business . . . . .                         | 489,631                 | 341,308          | 123,445          |
|   | <u>4,764,871</u>        | <u>4,855,953</u> | <u>4,948,324</u> |

Note:

(i) Others represent revenue primarily generated from the provision of system integration services, business consulting services, the sales of third-party hardware and software and the provision of corporate trainings.

Segment information

The following is an analysis of the Group’s revenue and results from continuing operations by reportable operating segments:

| Segment information from continuing operations<br>Year ended December 31, 2015 | Software<br>business | Network<br>security<br>business | Total          |
|--|----------------------|---------------------------------|----------------|
|  | RMB’000              | RMB’000                         | RMB’000        |
| Revenue . . . . .  | 4,275,240            | 489,631                         | 4,764,871      |
| Cost of sales . . . . .  | (2,669,727)          | (321,519)                       | (2,991,246)    |
| Gross profit . . . . .   | 1,605,513            | 168,112                         | 1,773,625      |
| Other income . . . . .   | 92,258               | —                               | 92,258         |
| Other gains and losses . . . . .   | (1,705)              | (2,391)                         | (4,096)        |
| Selling and marketing expenses . . . . .                                       | (563,192)            | (9,753)                         | (572,945)      |
| Administrative expenses . . . . .  | (254,929)            | (825)                           | (255,754)      |
| Research and development expenses . . . . .                                    | (592,220)            | (37,381)                        | (629,601)      |
| Finance costs . . . . .  | (6,075)              | —                               | (6,075)        |
| Profit before tax . . . . .  | <u>279,650</u>       | <u>117,762</u>                  | <u>397,412</u> |
| <br>   |                      |                                 |                |
| Segment information from continuing operations<br>Year ended December 31, 2016 | Software<br>business | Network<br>security<br>business | Total          |
|  | RMB’000              | RMB’000                         | RMB’000        |
| Revenue . . . . .  | 4,514,645            | 341,308                         | 4,855,953      |
| Cost of sales . . . . .  | (2,848,856)          | (334,472)                       | (3,183,328)    |
| Gross profit . . . . .   | 1,665,789            | 6,836                           | 1,672,625      |
| Other income . . . . .   | 141,791              | —                               | 141,791        |
| Other gains and losses . . . . .   | (45,228)             | —                               | (45,228)       |
| Selling and marketing expenses . . . . .                                       | (614,572)            | —                               | (614,572)      |
| Administrative expenses . . . . .  | (272,865)            | (214)                           | (273,079)      |
| Research and development expenses . . . . .                                    | (636,614)            | —                               | (636,614)      |
| Share of results of a joint venture . . . . .                                  | (10,000)             | —                               | (10,000)       |
| Finance costs . . . . .  | (93,905)             | —                               | (93,905)       |
| Profit before tax . . . . .  | <u>134,396</u>       | <u>6,622</u>                    | <u>141,018</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. REVENUE AND SEGMENT INFORMATION—continued

Segment information—continued

| Segment information from continuing operations<br>Year ended December 31, 2017 | Software<br>business | Network<br>security<br>business | Total       |
|--|----------------------|---------------------------------|-------------|
|  | RMB’000              | RMB’000                         | RMB’000     |
| Revenue . . . . .  | 4,824,879            | 123,445                         | 4,948,324   |
| Cost of sales . . . . .  | (3,156,920)          | (120,976)                       | (3,277,896) |
| Gross profit . . . . .   | 1,667,959            | 2,469                           | 1,670,428   |
| Other income . . . . .   | 114,712              | —                               | 114,712     |
| Other gains and losses . . . . .   | 68,828               | —                               | 68,828      |
| Selling and marketing expenses . . . . .                                       | (481,831)            | —                               | (481,831)   |
| Administrative expenses . . . . .  | (403,629)            | (171)                           | (403,800)   |
| Research and development expenses . . . . .                                    | (430,246)            | —                               | (430,246)   |
| Share of results of associates . . . . .                                       | 258                  | —                               | 258         |
| Finance costs . . . . .  | (83,986)             | —                               | (83,986)    |
| [REDACTED] . . . . .   | (30,603)             | —                               | (30,603)    |
| Profit before tax . . . . .  | 421,462              | 2,298                           | 423,760     |

The accounting policies of the reportable segments are the same as the Group’s significant accounting policies described in Note 4.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for each of the year of the Track Record Period.

No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

**Geographical information**

The Group’s operations are in the PRC. All revenue from continuing operations of the Group and non-current assets of the Group are generated from and located in the PRC.

Information about the Group’s revenue from continuing operations from external customers is presented based on the location of the signing parties of the sales or service contracts. During each of the reporting periods presented, there were no sales or service contracts with a signing party located outside of the PRC.

**Information about major customers**

Revenue from customers contributing over 10% of the total revenue of the Group during the Track Record Period is as follows:

|                              | Year ended December 31, |           |           |
|------------------------------|-------------------------|-----------|-----------|
|                              | 2015                    | 2016      | 2017      |
|                              | RMB’000                 | RMB’000   | RMB’000   |
| Telecom operator A . . . . . | 2,532,929               | 2,555,317 | 2,736,689 |
| Telecom operator B . . . . . | 1,252,514               | 1,212,707 | 1,173,224 |
| Telecom operator C . . . . . | 836,813                 | 876,541   | 845,696   |

Note: The customers as shown above are at their Group level which aggregates the customer’s headquarters, provincial, municipal and specialized companies which enters into contract with the Group individually.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. OTHER INCOME

Continuing operations

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2015                    | 2016           | 2017           |
|  | RMB’000                 | RMB’000        | RMB’000        |
| Government grants . . . . .                                      | 45,160                  | 49,180         | 44,098         |
| Income from management support services <sup>(i)</sup> . . . . . | 11,474                  | 52,181         | 29,179         |
| Interest income from related parties . . . . .                   | 3,586                   | 19,649         | 19,001         |
| Interest income from current bank accounts . . . . .             | 17,293                  | 14,721         | 19,018         |
| Interest income from available-for-sale investments . . . . .    | 14,503                  | 177            | —              |
| Others . . . . .   | 242                     | 5,883          | 3,416          |
|  | <u>92,258</u>           | <u>141,791</u> | <u>114,712</u> |

Note:

(i) Income from management support services represents income generated primarily from the provision of management services in the areas of legal support, human resources and administration, etc. to the Group’s related parties.

8. OTHER GAINS AND LOSSES

Continuing operations

|  | Year ended December 31, |                 |               |
|--|-------------------------|-----------------|---------------|
|  | 2015                    | 2016            | 2017          |
|  | RMB’000                 | RMB’000         | RMB’000       |
| Gain (loss) on disposal of property, plant and equipment . . . . . | 2,943                   | 3,894           | (5,135)       |
| Loss on disposal of intangible assets . . . . .                    | (391)                   | (8,132)         | (413)         |
| Impairment of intangible assets . . . . .                          | —                       | —               | (2,200)       |
| Impairment loss of an available-for-sale investment . . . . .      | —                       | —               | (4,335)       |
| Impairment of inventories . . . . .                                | (17,281)                | —               | (110)         |
| Allowance for trade receivables . . . . .                          | (1,113)                 | (671)           | (4,714)       |
| Allowance for other receivables . . . . .                          | (1,586)                 | (1,525)         | (1,123)       |
| Gain on disposal of a subsidiary . . . . .                         | —                       | 48,763          | —             |
| Gain from extinguishment of liabilities <sup>(i)</sup> . . . . .   | 10,398                  | 2,635           | 1,278         |
| Exchange (loss) gain, net . . . . .                                | (3,561)                 | (95,196)        | 84,029        |
| Others . . . . .   | 6,495                   | 5,004           | 1,551         |
|  | <u>(4,096)</u>          | <u>(45,228)</u> | <u>68,828</u> |

Note:

(i) The amount mainly represents certain outstanding other payables and accrued expenses, relating to project-based software development contracts, aged over years which has exceeded the maximum recourse period and is no longer payable by the Group.

9. FINANCE COSTS

Continuing operations

|                                       | Year ended December 31, |               |               |
|---------------------------------------|-------------------------|---------------|---------------|
|                                       | 2015                    | 2016          | 2017          |
|                                       | RMB’000                 | RMB’000       | RMB’000       |
| Interest on bank borrowings . . . . . | <u>6,075</u>            | <u>93,905</u> | <u>83,986</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10. INCOME TAX EXPENSES RELATING TO CONTINUING OPERATIONS

|                                   | Year ended December 31, |               |               |
|-----------------------------------|-------------------------|---------------|---------------|
|                                   | 2015                    | 2016          | 2017          |
|                                   | RMB’000                 | RMB’000       | RMB’000       |
| Current tax:                      |                         |               |               |
| Hong Kong Profits Tax             |                         |               |               |
| —Current year .....               | 368                     | 126           | 802           |
| PRC enterprise income tax (“EIT”) |                         |               |               |
| —Current year .....               | 127,796                 | 106,403       | 92,440        |
| Deferred tax (Note 33) .....      | (40,542)                | (39,531)      | (4,658)       |
|                                   | <u>87,622</u>           | <u>66,998</u> | <u>88,584</u> |

Under the Law of the PRC on enterprise income tax (the “EIT Law”) and implementation regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the Track Record Period.

The Group’s subsidiaries operating in the PRC are eligible for certain tax credits of 150% deduction rate on certain research and development expenses for the years ended December 31, 2015, 2016 and 2017.

On August 9, 2012, the Ministry of Industry and Information Technology of the PRC, the Ministry of Finance of the PRC and the State Administration of Taxation promulgated and implemented Trial Measures for the Administration over the Certification of Key Software Enterprises and Integrated Circuit Design Enterprises under State Planned Layout, pursuant to which key software enterprises under the state plan layout could go through tax reduction procedures with the competent tax authorities to enjoy preferential tax policies.

During the Track Record Period, two of the Company’s subsidiaries, including AsiaInfo Technologies (China), Inc. (“AsiaInfo China”) and AsiaInfo Technologies (Nanjing), Inc. (“AsiaInfo Nanjing”), were identified as the key software enterprises with tax privileges and entitled to a preferential EIT rate of 10%, pursuant to the designation as a key software enterprise within National Programming Layout. Such tax preference was applied and entitled by performing the record filling to the tax authorities on a yearly basis. The directors of the Company considers that AsiaInfo China and AsiaInfo Nanjing will re-apply for such tax preference provided that its business operations will continue to be qualified as key software enterprises.

According to the relevant tax law in the PRC, dividend distributed to foreign investors out of the profit generated from January 1, 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Detailed Rules for the Implementation of the Regulation.

The Group’s subsidiaries located in Hong Kong are subject to Hong Kong Profits Tax at a rate of 16.5% for the Track Record Period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10. INCOME TAX EXPENSES RELATING TO CONTINUING OPERATIONS—continued

The income tax expenses for each of the year during the Track Record Period can be reconciled to the profit before tax from continuing operations per the combined statements of profit or loss and other comprehensive income as follows:

Continuing operations

|  | Year ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2015                    | 2016          | 2017          |
|  | RMB’000                 | RMB’000       | RMB’000       |
| Profit before taxation   | 397,412                 | 141,018       | 423,760       |
| Tax at applicable income tax rate of 10%                                       | 39,741                  | 14,102        | 42,376        |
| Tax effect of share of results of associates and a joint venture               | —                       | 1,000         | 26            |
| Tax effect of 150% deduction rate on certain research and development expenses | (15,711)                | (12,802)      | (14,547)      |
| Tax effect of expenses not deductible for tax purpose                          | 25,650                  | 19,165        | 19,532        |
| Tax effect of income not taxable for tax purpose                               | (1,906)                 | (3,508)       | (19,596)      |
| Tax effect of tax losses not recognized  | 174                     | 42,703        | 38,095        |
| Tax effect of withholding tax on dividend distribution                         | 16,987                  | 15,072        | 26,861        |
| Tax effect of different tax rates of subsidiaries not applicable of 10%        |                         |               |               |
| PRC  | 22,582                  | (8,826)       | (4,482)       |
| Hong Kong  | 105                     | 92            | 319           |
| Income tax expenses for the year   | <u>87,622</u>           | <u>66,998</u> | <u>88,584</u> |

11. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

|   | Year ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2015                    | 2016             | 2017             |
|   | RMB’000                 | RMB’000          | RMB’000          |
| Profit for the year from continuing operation has been arrived at after charging (crediting): |                         |                  |                  |
| Staff costs, including directors’ remuneration set out in Note 14                             |                         |                  |                  |
| Directors’ remuneration   | 5,749                   | 13,885           | 21,897           |
| Employee benefit expenses   |                         |                  |                  |
| Other staff costs (salaries, wages, allowance, and bonus)                                     | 2,632,085               | 2,480,401        | 2,836,288        |
| Contribution to retirement benefits scheme  | 214,876                 | 217,643          | 208,215          |
| Share-based compensation expenses   | 22,556                  | 25,552           | 60,987           |
| Total staff costs   | <u>2,875,266</u>        | <u>2,737,481</u> | <u>3,127,387</u> |
| Cost of inventories recognized as expenses (including in cost of sales)                       | 119,410                 | 173,272          | 115,217          |
| Depreciation of property, plant and equipment   | 56,689                  | 33,718           | 35,424           |
| Amortization of intangible assets   | 136,707                 | 97,608           | 55,301           |
| Amortization of prepaid lease payments  | 2,501                   | 2,405            | 2,019            |
| Auditor’s remuneration  | <u>9,109</u>            | <u>6,627</u>     | <u>9,631</u>     |



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. DISCONTINUED OPERATIONS

Disposal of two business operations

During the Track Record Period, the Group disposed two of business operations including the International Business and the e-public service business which primarily engaged in the provision of big data services, tools and applications to governmental bodies and public institutions (the “E-public Service Business”).

On June 30, 2016, the Group entered into a series of sale agreements with AsiaInfo International (H.K.) Limited (“International HK”), which is an indirect wholly-owned subsidiary of Dr. Suning Tian, the founder and chairman of the Group, to dispose of the International Business and transfer the equity interests of all subsidiaries under such business for nil consideration.

Upon the acquisition of AsiaInfo Big Data in December 2017 as described in note (ii) of the combined statements of changes in equity, which is a business combination under common control, AsiaInfo Big Data is regarded as if it has been within the Group throughout the Track Record Period. Accordingly, the disposal of AsiaInfo Big Data’s E-public Service Business incurred in November 2017 was considered as a discontinued operation of the Group. Such E-public Service Business was disposed of by AsiaInfo Big Data to Guangzhou AsiaInfo Cloud Bigdata Co., Ltd., a related party of the Group, for nil consideration. Through such disposal, substantial business of E-public Service Business was disposed of with an insignificant amount of contracts completed during the period ended March 31, 2018.

Details of the assets and liabilities disposed of, and the calculation of the profit or loss on these disposal, are disclosed in Note 44.

Analysis of loss for the year from discontinued operations

The combined statements of profit or loss and other comprehensive income have been presented the International Business and the E-public service Business as discontinued operations.

|  | Year ended December 31, |                  |                 |
|--|-------------------------|------------------|-----------------|
|  | 2015                    | 2016             | 2017            |
|  | RMB’000                 | RMB’000          | RMB’000         |
| Loss of International Business . . . . .                 | (364,987)               | (194,195)        | —               |
| Loss of E-public Service Business . . . . .              | (65,939)                | (89,084)         | (17,683)        |
| Gain (loss) on disposal . . . . .                        | 10,464                  | (11,594)         | 450             |
| Loss for the year from discontinued operations . . . . . | <u>(420,462)</u>        | <u>(294,873)</u> | <u>(17,233)</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. DISCONTINUED OPERATIONS—continued

Analysis of loss for the year from discontinued operations—continued

a. Discontinued International Business

The results of the discontinued International Business for the two years ended December 31, 2015 and 2016, which have been included in the combined statements of profit or loss and other comprehensive income, are set out as follows:

| <u>Discontinued International Business</u>  | <u>Year ended December 31,</u> |                  |
|---|--------------------------------|------------------|
|   | <u>2015</u>                    | <u>2016</u>      |
|   | <u>RMB’000</u>                 | <u>RMB’000</u>   |
| Revenue . . . . .                           | 86,163                         | 23,314           |
| Cost of sales . . . . .                     | (283,515)                      | (125,266)        |
| Gross loss . . . . .                        | (197,352)                      | (101,952)        |
| Other income . . . . .                      | —                              | 40               |
| Other gains and losses . . . . .            | 9,102                          | (2,184)          |
| Selling and marketing expenses . . . . .    | (47,800)                       | (15,212)         |
| Administrative expenses . . . . .           | (2,637)                        | (1,378)          |
| Research and development expenses . . . . . | (123,664)                      | (71,962)         |
| Loss before tax . . . . .                   | (362,351)                      | (192,648)        |
| Income tax expenses . . . . .               | (2,636)                        | (1,547)          |
| Loss for the year . . . . .                 | <u>(364,987)</u>               | <u>(194,195)</u> |

|  | <u>Year ended December 31,</u> |                |
|--|--------------------------------|----------------|
|  | <u>2015</u>                    | <u>2016</u>    |
|  | <u>RMB’000</u>                 | <u>RMB’000</u> |
| Loss for the year from discontinued International Business has been arrived at after charging: |                                |                |
| Staff costs  |                                |                |
| Staff salaries and other benefits . . . . .  | 223,855                        | 121,005        |
| Contribution to retirement benefit scheme . . . . .  | 10,264                         | 5,666          |
| Share-based compensation expenses . . . . .  | 1,009                          | —              |
| Total staff cost . . . . .   | 235,128                        | 126,671        |
| Depreciation of property, plant and equipment . . . . .  | 892                            | 1,445          |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. DISCONTINUED OPERATIONS—continued

Analysis of loss for the year from discontinued operations—continued

b. Discontinued E-public Service Business

The results of the discontinued E-public Service Business, for the three years ended December 31, 2015, 2016 and 2017, which have been included in the combined statements of profit or loss and other comprehensive income, are set out as follows:

| <u>Discontinued E-public Service Business</u>   | <u>Year ended December 31,</u> |                 |                 |
|---|--------------------------------|-----------------|-----------------|
|   | <u>2015</u>                    | <u>2016</u>     | <u>2017</u>     |
|   | <u>RMB’000</u>                 | <u>RMB’000</u>  | <u>RMB’000</u>  |
| Revenue . . . . .                               | 45,439                         | 91,464          | 23,197          |
| Cost of sales . . . . .                         | (74,872)                       | (68,021)        | (37,970)        |
| Gross (loss) profit . . . . .                   | (29,433)                       | 23,443          | (14,773)        |
| Other income . . . . .                          | 25                             | 73              | 40              |
| Other gains and losses <sup>(i)</sup> . . . . . | (3,175)                        | (5,515)         | 35,569          |
| Selling and marketing expenses . . . . .        | (15,424)                       | (56,397)        | (23,160)        |
| Administrative expenses . . . . .               | (1,577)                        | (11,192)        | (3,439)         |
| Research and development expenses . . . . .     | (16,001)                       | (31,970)        | (9,701)         |
| Share of results of associates . . . . .        | 1,275                          | (1,321)         | (1,573)         |
| Share of results of joint ventures . . . . .    | (1,628)                        | (5,191)         | (646)           |
| Loss before tax . . . . .                       | (65,938)                       | (88,070)        | (17,683)        |
| Income tax expenses . . . . .                   | (1)                            | (1,014)         | —               |
| Loss for the year . . . . .                     | <u>(65,939)</u>                | <u>(89,084)</u> | <u>(17,683)</u> |

Note:

(i) Included in other gains and losses in 2017, there were gain on disposal of subsidiaries amounting to RMB37,197,000 (Note 44).

|   | <u>Year ended December 31,</u> |                |                |
|---|--------------------------------|----------------|----------------|
|   | <u>2015</u>                    | <u>2016</u>    | <u>2017</u>    |
|   | <u>RMB’000</u>                 | <u>RMB’000</u> | <u>RMB’000</u> |
| Loss for the year from discontinued E-public Service Business has been arrived at after charging: |                                |                |                |
| Staff cost  |                                |                |                |
| Staff salaries and other benefits . . . . .   | 68,680                         | 104,120        | 49,464         |
| Contribution to retirement benefit scheme . . . . .   | 6,483                          | 12,685         | 4,503          |
| Total staff cost . . . . .  | 75,163                         | 116,805        | 53,967         |
| Depreciation of property, plant and equipment . . . . .   | 606                            | 923            | 320            |

13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as such information is not considered meaningful with regard to the Reorganization and the results for the Track Record Period is prepared on a combined basis as set out in Note 2.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. DIRECTORS’ AND CHIEF EXECUTIVE’S EMOLUMENTS AND EMPLOYEES’ EMOLUMENTS

Directors and chief executive

Mr. Nianshu Gao served as the CEO of the Company since July 2016 and was appointed as a director of the Company in 2017. Mr. Jun Wu served as the Company’s director and CEO since April 15, 2014 and terminated his role served as the CEO in July 2016, and his role served as the director of the Company on May 15, 2017. Mr. James Hsu was appointed as a director of the Company with effect from May 9, 2014 to January 31, 2018.

Details of the emoluments paid or payable to the directors and chief executive of the Company by entities comprising the Group during the Track Record Period are as follows:

Year ended December 31, 2015

|                                 | <u>Salaries and<br/>other<br/>benefits</u> | <u>Discretionary<br/>bonus</u> | <u>Contribution to<br/>retirement<br/>benefit scheme</u> | <u>Share-based<br/>compensation</u> | <u>Total</u> |
|---------------------------------|--|--------------------------------|--|-------------------------------------|--------------|
|                                 | RMB’000                                    | RMB’000                        | RMB’000  | RMB’000                             | RMB’000      |
| Directors and chief executives: |  |                                |  |                                     |              |
| Mr. Jun Wu . . . . .            | 1,929                                      | 1,418                          | 44   | 2,174                               | 5,565        |
| Mr. James Hsu . . . . .         | 184  | —                              | —  | —                                   | 184          |
| Mr. Zhen Ji . . . . .           | —  | —                              | —  | —                                   | —            |
| Mr. Steve Zhang . . . . .       | —  | —                              | —  | —                                   | —            |
| Mr. Jian Ding . . . . .         | —  | —                              | —  | —                                   | —            |
| Mr. Suning Tian . . . . .       | —  | —                              | —  | —                                   | —            |
| Mr. Jingyang Wu . . . . .       | —  | —                              | —  | —                                   | —            |
| Mr. Yichen Zhang . . . . .      | —  | —                              | —  | —                                   | —            |
|                                 | <u>2,113</u>                               | <u>1,418</u>                   | <u>44</u>  | <u>2,174</u>                        | <u>5,749</u> |

Year ended December 31, 2016

|                                 | <u>Salaries and<br/>other<br/>benefits</u> | <u>Discretionary<br/>bonus</u> | <u>Contribution to<br/>retirement<br/>benefit scheme</u> | <u>Share-based<br/>compensation</u> | <u>Total</u>  |
|---------------------------------|--|--------------------------------|--|-------------------------------------|---------------|
|                                 | RMB’000                                    | RMB’000                        | RMB’000  | RMB’000                             | RMB’000       |
| Directors and chief executives: |  |                                |  |                                     |               |
| Mr. Jun Wu . . . . .            | 2,065                                      | —                              | 48   | 10,123                              | 12,236        |
| Mr. Nianshu Gao . . . . .       | 575  | 721                            | 20   | —                                   | 1,316         |
| Mr. James Hsu . . . . .         | 333  | —                              | —  | —                                   | 333           |
| Mr. Zhen Ji . . . . .           | —  | —                              | —  | —                                   | —             |
| Mr. Steve Zhang . . . . .       | —  | —                              | —  | —                                   | —             |
| Mr. Yuesheng Xin . . . . .      | —  | —                              | —  | —                                   | —             |
| Mr. Jian Ding . . . . .         | —  | —                              | —  | —                                   | —             |
| Mr. Suning Tian . . . . .       | —  | —                              | —  | —                                   | —             |
| Mr. Jingyang Wu . . . . .       | —  | —                              | —  | —                                   | —             |
| Mr. Yichen Zhang . . . . .      | —  | —                              | —  | —                                   | —             |
|                                 | <u>2,973</u>                               | <u>721</u>                     | <u>68</u>  | <u>10,123</u>                       | <u>13,885</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. DIRECTORS’ AND CHIEF EXECUTIVE’S EMOLUMENTS AND EMPLOYEES’ EMOLUMENTS—continued

Directors and chief executive—continued

Year ended December 31, 2017

|                                 | Salaries and other benefits | Discretionary bonus | Contribution to retirement benefit scheme | Share-based compensation | Termination expenses | Total         |
|---------------------------------|-----------------------------|---------------------|---|--------------------------|----------------------|---------------|
|                                 | RMB’000                     | RMB’000             | RMB’000                                   | RMB’000                  | RMB’000              | RMB’000       |
| Directors and chief executives: |                             |                     |   |                          |                      |               |
| Mr. Jun Wu . . . . .            | 734                         | —                   | 20  | 1,369                    | 1,339                | 3,462         |
| Mr. Nianshu Gao . . . . .       | 2,052                       | 4,860               | 51  | 11,133                   | —                    | 18,096        |
| Mr. James Hsu . . . . .         | 339                         | —                   | —   | —                        | —                    | 339           |
| Mr. Yuesheng Xin . . . . .      | —                           | —                   | —   | —                        | —                    | —             |
| Mr. Jian Ding . . . . .         | —                           | —                   | —   | —                        | —                    | —             |
| Mr. Suning Tian . . . . .       | —                           | —                   | —   | —                        | —                    | —             |
| Mr. Jingyang Wu . . . . .       | —                           | —                   | —   | —                        | —                    | —             |
| Mr. Yichen Zhang . . . . .      | —                           | —                   | —   | —                        | —                    | —             |
|                                 | <u>3,125</u>                | <u>4,860</u>        | <u>71</u>                                 | <u>12,502</u>            | <u>1,339</u>         | <u>21,897</u> |

Note:

Mr. Zhen Ji was appointed as a director of the Company on January 15, 2015 and resigned on August 31, 2016. Mr. Steve Zhang was appointed as a director of the Company with effect from January 14, 2014 and resigned on July 15, 2016. Mr. Yuesheng Xin was appointed as a director of the Company with effect from August 31, 2016. Mr. Suning Tian, Mr. Yichen Zhang, Mr. Jingyang Wu and Mr. Jian Ding were all appointed as directors of the Company since January 15, 2014.

No emoluments were paid or payable to Mr. Zhen Ji, Mr. Steve Zhang, Mr. Suning Tian, Mr. Jian Ding, Mr. Yichen Zhang, Mr. Jingyang Wu and Mr. Yuesheng Xin, the directors of the Company during the years ended December 31, 2015, 2016 and 2017.

The emoluments of the directors and chief executive shown above were for their management services rendered to the Group.

During the Track Record Period, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the holding companies of the Company. Details of the share-based payments are set out in Note 41.

Employees

The five highest paid individuals of the Group during the Track Record Period included one director each for the three years ended December 31, 2015, 2016 and 2017, whose emoluments were included in the disclosures above. The emoluments of the remaining individuals for the Track Record Period are as follows:

|   | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2015                    | 2016          | 2017          |
|   | RMB’000                 | RMB’000       | RMB’000       |
| Employees   |                         |               |               |
| Salaries and other benefits . . . . .               | 5,321                   | 6,175         | 5,686         |
| Discretionary bonus . . . . .                       | 10,771                  | 5,603         | 13,682        |
| Share-based compensation expenses . . . . .         | 4,918                   | 13,661        | 36,184        |
| Contribution to retirement benefit scheme . . . . . | 190                     | 220           | 214           |
|   | <u>21,200</u>           | <u>25,659</u> | <u>55,766</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. DIRECTORS’ AND CHIEF EXECUTIVE’S EMOLUMENTS AND EMPLOYEES’ EMOLUMENTS—continued

Employees—continued

Their top five emoluments fell within the following band:

|  | Year ended December 31, |                     |                     |
|--|-------------------------|---------------------|---------------------|
|  | 2015                    | 2016                | 2017                |
|  | Number of employees     | Number of employees | Number of employees |
| Hong Kong dollar (“HK\$”) 3,500,001 to HK\$4,000,000 . . . . . | 1                       | 1                   | —                   |
| HK\$4,000,001 to HK\$4,500,000 . . . . .                       | 2                       | 2                   | —                   |
| HK\$4,500,001 to HK\$5,000,000 . . . . .                       | —                       | 1                   | —                   |
| HK\$7,000,001 to HK\$7,500,000 . . . . .                       | 1                       | —                   | —                   |
| HK\$7,500,001 to HK\$8,000,000 . . . . .                       | 1                       | —                   | —                   |
| HK\$10,000,001 to HK\$10,500,000 . . . . .                     | —                       | —                   | 2                   |
| HK\$11,000,001 to HK\$11,500,000 . . . . .                     | —                       | —                   | 1                   |
| HK\$11,500,001 to HK\$12,000,000 . . . . .                     | —                       | —                   | 1                   |
| HK\$15,000,001 to HK\$15,500,000 . . . . .                     | —                       | 1                   | —                   |
| HK\$20,500,001 to HK\$21,000,000 . . . . .                     | —                       | —                   | 1                   |
|  | <u>5</u>                | <u>5</u>            | <u>5</u>            |

Saved as disclosed above, during the Track Record Period, no emoluments was paid by the Group to the directors or chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors of the Company waived or agreed to waive any emoluments during the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. PROPERTY, PLANT AND EQUIPMENT

|                                 | <u>Buildings</u> | <u>Leasehold improvements</u> | <u>Motor vehicles</u> | <u>Furniture, fixtures and equipment</u> | <u>Total</u> |
|---------------------------------|------------------|-------------------------------|-----------------------|--|--------------|
|                                 | RMB’000          | RMB’000                       | RMB’000               | RMB’000                                  | RMB’000      |
| <b>COST</b>                     |                  |                               |                       |  |              |
| At January 1, 2015              | 190,404          | 76,856                        | 11,931                | 211,242                                  | 490,433      |
| Exchange realignment            | —                | 51                            | —                     | 376                                      | 427          |
| Additions                       | —                | 14,525                        | 407                   | 41,445                                   | 56,377       |
| Disposals                       | —                | (12,224)                      | (2,543)               | (42,670)                                 | (57,437)     |
| At December 31, 2015            | 190,404          | 79,208                        | 9,795                 | 210,393                                  | 489,800      |
| Exchange realignment            | —                | —                             | —                     | 6  | 6            |
| Additions                       | 6,490            | 9,961                         | 795                   | 10,446                                   | 27,692       |
| Disposals                       | —                | (434)                         | (3,110)               | (17,626)                                 | (21,170)     |
| At December 31, 2016            | 196,894          | 88,735                        | 7,480                 | 203,219                                  | 496,328      |
| Additions                       | 693              | 3,725                         | 1,264                 | 4,607                                    | 10,289       |
| Disposals                       | (4)              | (8,856)                       | (3,743)               | (72,005)                                 | (84,608)     |
| At December 31, 2017            | 197,583          | 83,604                        | 5,001                 | 135,821                                  | 422,009      |
| <b>ACCUMULATED DEPRECIATION</b> |                  |                               |                       |  |              |
| At January 1, 2015              | (3,967)          | (19,401)                      | (9,032)               | (136,327)                                | (168,727)    |
| Exchange realignment            | —                | (45)                          | —                     | (147)                                    | (192)        |
| Charged for the year            | (4,035)          | (8,453)                       | (1,155)               | (44,544)                                 | (58,187)     |
| Eliminated on disposals         | —                | 9,801                         | 2,250                 | 39,419                                   | 51,470       |
| At December 31, 2015            | (8,002)          | (18,098)                      | (7,937)               | (141,599)                                | (175,636)    |
| Exchange realignment            | —                | —                             | —                     | (7)                                      | (7)          |
| Charged for the year            | (4,154)          | (9,287)                       | (585)                 | (22,060)                                 | (36,086)     |
| Eliminated on disposals         | —                | 54                            | 2,856                 | 16,470                                   | 19,380       |
| At December 31, 2016            | (12,156)         | (27,331)                      | (5,666)               | (147,196)                                | (192,349)    |
| Charged for the year            | (4,235)          | (10,690)                      | (576)                 | (20,243)                                 | (35,744)     |
| Eliminated on disposals         | —                | 3,121                         | 3,170                 | 62,422                                   | 68,713       |
| At December 31, 2017            | (16,391)         | (34,900)                      | (3,072)               | (105,017)                                | (159,380)    |
| <b>CARRYING VALUES</b>          |                  |                               |                       |  |              |
| At December 31, 2015            | 182,402          | 61,110                        | 1,858                 | 68,794                                   | 314,164      |
| At December 31, 2016            | 184,738          | 61,404                        | 1,814                 | 56,023                                   | 303,979      |
| At December 31, 2017            | 181,192          | 48,704                        | 1,929                 | 30,804                                   | 262,629      |

The above items of property, plant and equipment, taking into account their residual values of the cost, are depreciated on a straight-line basis over their useful lives shown as follows:

|                                   |  |
|-----------------------------------|--|
| Buildings                         | 40 to 47 years                             |
| Leasehold improvements            | Shorter of the lease term or 5 to 10 years |
| Motor vehicles                    | 5 years                                    |
| Furniture, fixtures and equipment | 5 to 10 years                              |



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. PREPAID LEASE PAYMENTS

|   | At December 31, |               |               |
|---|-----------------|---------------|---------------|
|   | 2015            | 2016          | 2017          |
|   | RMB’000         | RMB’000       | RMB’000       |
| Analyzed for reporting purposes as:   |                 |               |               |
| Non-current assets  | 145,677         | 87,508        | 85,489        |
| Current assets (included in prepayments, deposits and other receivables – Note 26) <sup>(1)</sup> | 3,175           | 2,019         | 2,019         |
|   | <u>148,852</u>  | <u>89,527</u> | <u>87,508</u> |

Note:

- 1) The current portion of prepaid lease payment included in prepayment, deposits and other receivables represents the portion to be amortized within one year in relation to the land use rights.

The movements of the prepaid lease payments is as follows:

|  | RMB’000         |
|--|-----------------|
| <b>COST</b>                            |                 |
| At January 1, 2015                     | 100,971         |
| Additions                              | 57,787          |
| At December 31, 2015                   | 158,758         |
| Disposal of a subsidiary               | (57,787)        |
| At December 31, 2016 and 2017          | <u>100,971</u>  |
| <b>ACCUMULATED AMORTIZATION</b>        |                 |
| At January 1, 2015                     | (7,405)         |
| Charged for the year                   | (2,501)         |
| At December 31, 2015                   | (9,906)         |
| Charged for the year                   | (2,405)         |
| Eliminated on disposal of a subsidiary | 867             |
| At December 31, 2016                   | (11,444)        |
| Charged for the year                   | (2,019)         |
| At December 31, 2017                   | <u>(13,463)</u> |
| <b>CARRYING VALUES</b>                 |                 |
| At December 31, 2015                   | <u>148,852</u>  |
| At December 31, 2016                   | <u>89,527</u>   |
| At December 31, 2017                   | <u>87,508</u>   |

The Group entered into the land use right transfer agreement with Beijing Municipal Bureau of Land and Resources pursuant to which the Group acquired the land use right with a 50-year term in Beijing in 2011. Subsequently in 2015, the Group entered into another land use right transfer agreement pursuant to which the Group acquired the land use right with a 50-year term in Nanjing. The prepaid lease payments represent the land use rights and are amortized on a straight-line basis over lease terms of 50 years as stated in the relevant land use right certificates granted for usage to the Group.

On March 1, 2016, the prepaid lease payment for the land use right in Nanjing was disposed of with the disposal of a subsidiary, Nanjing AsiaInfo Internet Technologies Limited (“AsiaInfo Nanjing Internet”), details of which are set out in Note 44.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. INTANGIBLE ASSETS

|                                    | Customer relationships | Core technologies | Non-compete agreements | Software | Memberships | Total       |
|------------------------------------|------------------------|-------------------|------------------------|----------|-------------|-------------|
|                                    | RMB’000                | RMB’000           | RMB’000                | RMB’000  | RMB’000     | RMB’000     |
| <b>COST</b>                        |                        |                   |                        |          |             |             |
| At January 1, 2015                 | 779,585                | 295,512           | 6,729                  | 6,808    | 4,240       | 1,092,874   |
| Additions                          | —                      | —                 | —                      | 7,729    | —           | 7,729       |
| Disposals                          | —                      | —                 | —                      | (4,133)  | —           | (4,133)     |
| At December 31, 2015               | 779,585                | 295,512           | 6,729                  | 10,404   | 4,240       | 1,096,470   |
| Additions                          | —                      | —                 | —                      | 9,461    | —           | 9,461       |
| Disposal                           | —                      | —                 | —                      | (10,017) | (840)       | (10,857)    |
| At December 31, 2016               | 779,585                | 295,512           | 6,729                  | 9,848    | 3,400       | 1,095,074   |
| Additions                          | —                      | —                 | —                      | 1,659    | —           | 1,659       |
| Disposal                           | —                      | —                 | —                      | (1,845)  | —           | (1,845)     |
| At December 31, 2017               | 779,585                | 295,512           | 6,729                  | 9,662    | 3,400       | 1,094,888   |
| <b>AMORTIZATION AND IMPAIRMENT</b> |                        |                   |                        |          |             |             |
| At January 1, 2015                 | (517,207)              | (221,634)         | (6,670)                | (5,008)  | —           | (750,519)   |
| Charged for the year               | (86,071)               | (49,252)          | (59)                   | (1,325)  | —           | (136,707)   |
| Eliminated on disposals            | —                      | —                 | —                      | 3,742    | —           | 3,742       |
| At December 31, 2015               | (603,278)              | (270,886)         | (6,729)                | (2,591)  | —           | (883,484)   |
| Charge for the year                | (69,365)               | (24,626)          | —                      | (3,617)  | —           | (97,608)    |
| Eliminated on disposals            | —                      | —                 | —                      | 2,725    | —           | 2,725       |
| At December 31, 2016               | (672,643)              | (295,512)         | (6,729)                | (3,483)  | —           | (978,367)   |
| Charged for the year               | (52,331)               | —                 | —                      | (2,970)  | —           | (55,301)    |
| Eliminated on disposals            | —                      | —                 | —                      | 1,432    | —           | 1,432       |
| Impairments                        | —                      | —                 | —                      | —        | (2,200)     | (2,200)     |
| At December 31, 2017               | (724,974)              | (295,512)         | (6,729)                | (5,021)  | (2,200)     | (1,034,436) |
| <b>CARRYING VALUES</b>             |                        |                   |                        |          |             |             |
| At December 31, 2015               | 176,307                | 24,626            | —                      | 7,813    | 4,240       | 212,986     |
| At December 31, 2016               | 106,942                | —                 | —                      | 6,365    | 3,400       | 116,707     |
| At December 31, 2017               | 54,611                 | —                 | —                      | 4,641    | 1,200       | 60,452      |

All intangible assets have finite useful lives and are amortized on a straight-line basis based on their estimated useful lives, except for the customer relationships having finite useful lives and being amortized on an accelerated basis based on their estimated useful lives and the memberships having infinite lives, as follows:

|                        |               |
|------------------------|---------------|
| Customer relationships | 2 to 10 years |
| Software               | 1 to 6 years  |
| Core technologies      | 5 to 6 years  |
| Non-compete agreements | 2 to 10 years |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. GOODWILL

The goodwill was primarily arisen the acquisition of Linkage Technologies International Holdings Limited (“Linkage”) on July 1, 2010. The carrying values was RMB1,932,246,000 as at December 31, 2015, 2016 and 2017, which is related to the Group’s software business.

Impairment testing on goodwill

For the impairment testing, goodwill has been allocated to the Group’s cash-generating unit which is operating in the software business.

The basis of the recoverable amounts of the above cash-generating unit and the methodology used for the year are summarized below:

The recoverable amounts of the group-of cash-generating units have been determined based on a value in use calculation and are determined with the assistance of Duff & Phelps, LLC (“Duff & Phelps”), an independent professional qualified valuer not connected with the Group. The address of Duff & Phelps is Tower 2, China Central Place, 79 Jianguo Road, Chaoyang District, Beijing.

The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at a post-tax discount rate of 16.0% for each year of the Track Record Period. The cash flows of the cash-generating units beyond the five-year period are extrapolated using a 3.0% growth rate considering the relevant industry growth rate forecast and the economic condition of the market and period which does not exceed the long-term average growth rate for the industry. The directors of the Company believe that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows and/or outflows which include budgeted sales and gross profit margin. Such estimation is based on the past performance of the cash-generating units, industry information and management’s expectations for the market development, including the fluctuation in the software products and related services business in the current economic environment.

During the years ended December 31, 2015, 2016 and 2017, no impairment loss was recognized.

The recoverable amount of CGUs of software business is RMB2,687,000,000, RMB2,803,000,000 and RMB4,070,000,000 for the years ended December 31, 2015, 2016 and 2017, respectively, and determined based on the value in use calculations.

In addition to impairment testing using the base case assumption, separate sensitivity analyses were performed by decreasing the growth rate of 0.5% from the base case.

There would not be impairment to be recognized based on the sensitivity analysis testing result. The directors of the Group believe that any reasonably possible change in any of other assumptions would not cause the aggregate carrying amount of the cash-generating unit to exceed the recoverable amount of this cash-generating unit.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. INVESTMENTS IN ASSOCIATES

Details of the Group’s investments in associates are aggregately presented as follows:

|   | At December 31, |               |               |
|---|-----------------|---------------|---------------|
|   | 2015            | 2016          | 2017          |
|   | RMB’000         | RMB’000       | RMB’000       |
| Cost of unlisted investments in associates . . . . .      | 12,750          | 12,750        | 56,000        |
| Share of results and other comprehensive income . . . . . | 1,275           | (46)          | 258           |
|   | <u>14,025</u>   | <u>12,704</u> | <u>56,258</u> |

Details of the Group’s associates at the end of each Track Record Period are as follows:

| Name of entity <sup>(i)</sup>   | Place of incorporation/ registration | Principal place of operation | Proportion of ownership interest and voting rights held by the Group at December 31, |        |          |        |          |        | Principal activity  |
|---|--------------------------------------|------------------------------|--|--------|----------|--------|----------|--------|---|
|   |                                      |                              | 2015   |        | 2016     |        | 2017     |        |   |
|   |                                      |                              | Directly   | Voting | Directly | Voting | Directly | Voting |   |
| Guiyang Global Big Data Exchange Co., Ltd. <sup>(v)</sup> (貴陽大數據交易所有限責任公司) . . . . .                  | PRC                                  | PRC                          | 21.5%  | 14.3%  | 21.5%    | 14.3%  | —        | —      | Provision of big data services  |
| AsiaInfo Lantao Technology Co., Ltd. (Jiangsu) <sup>(ii)(iv)</sup> (亞信藍濤 (江蘇) 數據科技有限公司) . . . . .     | PRC                                  | PRC                          | 28.0%  | 33.3%  | 28.0%    | 33.3%  | —        | —      | Provision of big data services  |
| Dalian Xikang Yunshe Development Co., Ltd. <sup>(iii)</sup> (大連熙康雲舍發展有限公司) . . . . .                  | PRC                                  | PRC                          | —  | —      | —        | —      | 10.0%    | 20.0%  | Provision of hospitality management, travel planning management and other management services |
| Beijing Yangguang Tiannv Information Technology Co., Ltd. <sup>(iv)</sup> (北京陽光天女信息科技有 限公司) . . . . . | PRC                                  | PRC                          | —  | —      | —        | —      | 9.0%     | 14.3%  | Provision of information technology development services                                      |

All of the above associates are accounted for using the equity method in the Historical Financial Information.

Notes:

- (i) The English names of the companies are translated from their registered Chinese names for identification purpose only.
- (ii) On November 3, 2017, AsiaInfo Lantao Technology Co., Ltd. (Jiangsu) (“AsiaInfo Lantao”) was disposed of to a third-party company as part of the discontinued E-public Service Business described in Note 12.
- (iii) In 2017, the Group invested RMB50,000,000 into Dalian Xikang Yunshe Development Co., Ltd (“Dalian Xikang Yunshe”) for 10% equity interests. Pursuant to the articles of associations, the Group has the ability to exercise significant influence over the investee through the power to appoint one out of five seats in the board of directors.
- (iv) On February 23, 2017, the Group invested RMB6,000,000 into Beijing Yangguang Tiannv Information Technology Co., Ltd. (“Yangguang Tiannv”), for 10% equity interests. The Group has the ability to exercise significant influence over the investee through the power to appoint one out of seven seats in the board of directors and has the rights to exercise its voting power throughout any decision-making process of the investee.  
On November 5, 2017, an independent third-party noncontrolling shareholder injected RMB20,000,000 to Yangguang Tiannv, which resulted in a dilution of the Group’s interest in Yangguang Tiannv from 10% to 9%.
- (v) The Group invested 21.5% equity interests in Guiyang Global Big Data Exchange Co., Ltd. (“Big Data Guiyang”) in 2015. Since the Group has power to appoint one out of seven seats in the board of directors of Big Data Guiyang and as the decision-making and policymaking need four out of five voting from the shareholders and no shareholder’s voting interest in more than 50%, the Group considered the equity interests in Big Data Guiyang is an investment in associate with significant influence. The investment in Big Data Guiyang was disposed of to a third-party company on November 3, 2017 as part of the discontinued E-public Service Business described in Note 12.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. INVESTMENTS IN ASSOCIATES—continued

The summarized financial information in respect of each of the Group’s associates is set out as follows:

A Big Data Guiyang

|                         | At December 31, |               |
|-------------------------|-----------------|---------------|
|                         | 2015            | 2016          |
|                         | RMB’000         | RMB’000       |
| Current assets          | 40,649          | 29,767        |
| Non-current assets      | 12,982          | 14,842        |
| Current liabilities     | 5,418           | 1,737         |
| Non-current liabilities | 193             | 193           |
| Net assets              | <u>48,020</u>   | <u>42,679</u> |

|   | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2015                    | 2016           | 2017           |
|   | RMB’000                 | RMB’000        | RMB’000        |
| Revenue   | 4,078                   | 2,514          | 4,753          |
| Loss and total comprehensive expense for the year | <u>(1,204)</u>          | <u>(5,342)</u> | <u>(6,269)</u> |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the Historical Financial Information is as follows:

|   | Year ended December 31, |              |
|---|-------------------------|--------------|
|   | 2015                    | 2016         |
|   | RMB’000                 | RMB’000      |
| Net assets of Big Data Guiyang                                    | 48,020                  | 42,679       |
|   | 48,020                  | 42,679       |
| Proportion of the Group’s ownership interests in Big Data Guiyang | 21.5%                   | 21.5%        |
| The Group’s share of net assets in Big Data Guiyang               | 10,324                  | 9,175        |
| Goodwill <sup>(1)</sup>   | 167                     | 167          |
| Carrying amount of the Group’s interests in Big Data Guiyang      | <u>10,491</u>           | <u>9,342</u> |

(1) For the investment in Big Data Guiyang, the excess of the cost of the investment over the Group’s share of the fair value of the identifiable assets and liabilities of the investee was recognized as goodwill, which has been included within the carrying amount of the investment. The entire carrying amount of the investment (including goodwill) was tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. No impairment loss has been recognized during the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. INVESTMENTS IN ASSOCIATES—continued

B. AsiaInfo Lantao

|                           | At December 31, |               |
|---------------------------|-----------------|---------------|
|                           | 2015            | 2016          |
|                           | RMB’000         | RMB’000       |
| Current assets .....      | 1,239           | 1,713         |
| Non-current assets .....  | 11,798          | 10,545        |
| Current liabilities ..... | 415             | 251           |
| Net assets .....          | <u>12,622</u>   | <u>12,007</u> |

|   | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2015                    | 2016           | 2017           |
|   | RMB’000                 | RMB’000        | RMB’000        |
| Revenue .....   | 58                      | 719            | 342            |
| Loss and total comprehensive expense for the year ..... | <u>(4,760)</u>          | <u>(3,616)</u> | <u>(4,298)</u> |

In June 2015, an independent third-party non-controlling shareholding company has injected capital amounting to RMB10,710,000 to AsiaInfo Lantao, which resulted in a dilution of the Group’s interest in AsiaInfo Lantao from 40% to 28%. The gain on deemed disposal of partial interest, representing the difference between the share of net asset value before and after the dilution, amounting to RMB3,095,000 was credited to the combined statements of profit or loss and other comprehensive income.

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the Historical Financial Information for the two years ended December 31, 2016 is as follows:

|  | Year ended December 31, |              |
|--|-------------------------|--------------|
|  | 2015                    | 2016         |
|  | RMB’000                 | RMB’000      |
| Net assets of AsiaInfo Lantao .....                                    | 12,622                  | 12,007       |
| Proportion of the Group’s ownership interests in AsiaInfo Lantao ..... | 28%                     | 28%          |
| Carrying amount of the Group’s interests in AsiaInfo Lantao .....      | <u>3,534</u>            | <u>3,362</u> |

C. Dalian Xikang Yunshe

|                               | At December 31, |  |
|-------------------------------|-----------------|--|
|                               | 2017            |  |
|                               | RMB’000         |  |
| Current assets .....          | 317,187         |  |
| Non-current assets .....      | 255,616         |  |
| Current liabilities .....     | 7,109           |  |
| Non-current liabilities ..... | <u>24,754</u>   |  |
| Net assets .....              | <u>540,940</u>  |  |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. INVESTMENTS IN ASSOCIATES—continued

C. Dalian Xikang Yunshe—continued

|   | Year ended<br>December 31,<br>2017 |
|---|------------------------------------|
|   | RMB’000                            |
| Revenue . . . . .   | 3,081                              |
| Loss and total comprehensive expense for the year . . . . . | <u>(10,183)</u>                    |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the Historical Financial Information for the year ended December 31, 2017 is as follows:

|   | Year ended<br>December 31,<br>2017 |
|---|------------------------------------|
|   | RMB’000                            |
| Net assets of Dalian Xikang Yunshe . . . . .                                    | 540,940                            |
| Less: non-controlling interest in Dalian Xikang Yunshe . . . . .                | <u>51,123</u>                      |
|   | 489,817                            |
| Proportion of the Group’s ownership interests in Dalian Xikang Yunshe . . . . . | 10%                                |
| Carrying amount of the Group’s interests in Dalian Xikang Yunshe . . . . .      | <u>48,982</u>                      |

D. Yangguang Tiannv

|                               | Year ended<br>December 31,<br>2017 |
|-------------------------------|------------------------------------|
|                               | RMB’000                            |
| Current assets . . . . .      | 8,495                              |
| Non-current assets . . . . .  | 8,457                              |
| Current liabilities . . . . . | <u>3,645</u>                       |
| Net assets . . . . .          | <u>13,307</u>                      |

|   | Year ended<br>December 31,<br>2017 |
|---|------------------------------------|
|   | RMB’000                            |
| Revenue . . . . .   | 10,319                             |
| Loss and total comprehensive expense for the year . . . . . | <u>(13,516)</u>                    |

On November 5, 2017, an independent third-party noncontrolling shareholding company injected RMB20,000,000 to Yangguang Tiannv, which resulted in a dilution of the Group’s interest in Yangguang Tiannv from 10% to 9%. The gain on deemed disposal of partial interest, representing the difference between the share of net asset value before and after the dilution, amounting to RMB2,417,000 was credited to the statements of profit or loss and other comprehensive income.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. INVESTMENTS IN ASSOCIATES—continued

D. Yangguang Tiannv—continued

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the Historical Financial Information for the year ended December 31, 2017 is as follows:

|   | Year ended<br>December 31,<br>2017 |
|---|------------------------------------|
|   | RMB’000                            |
| Net assets of Yangguang Tiannv . . . . .                                    | 13,307                             |
| Proportion of the Group’s ownership interests in Yangguang Tiannv . . . . . | 9%                                 |
| The Group’s share of net assets in Yangguang Tiannv . . . . .               | 1,198                              |
| Goodwill <sup>(v)</sup> . . . . .   | 6,078                              |
| Carrying amount of the Group’s interests in Yangguang Tiannv . . . . .      | <u>7,276</u>                       |

Note:

(v) On acquisition of the investment in Yangguang Tiannv, the excess of the cost of the investment over the Group’s share of the realizable fair value of the identifiable assets and liabilities of the investee was recognized as goodwill, which has been included within the carrying amount of the investment. The entire carrying amount of the investment (including goodwill) was tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. No impairment loss has been recognized during the Track Record Period.

20. INVESTMENTS IN JOINT VENTURES

Details of the Group’s investments in joint ventures are as follows:

|  | At December 31, |              |          |
|--|-----------------|--------------|----------|
|  | 2015            | 2016         | 2017     |
|  | RMB’000         | RMB’000      | RMB’000  |
| Cost of unlisted investments in joint ventures . . . . .   | 6,120           | 19,120       | —        |
| Share of results and other comprehensive expense . . . . . | (1,629)         | (16,820)     | —        |
|  | <u>4,491</u>    | <u>2,300</u> | <u>—</u> |

Details of the Group’s joint ventures at December 31, 2015 and 2016 are set out as follows:

| Name of entity <sup>(i)</sup>  | Place of incorporation/ registration | Principal place of operation | Proportion of ownership interest and voting rights held by the Group at December 31, |        |          |        | Principal activity             |
|--|--------------------------------------|------------------------------|--|--------|----------|--------|--------------------------------|
|  |                                      |                              | 2015   |        | 2016     |        |                                |
|  |                                      |                              | Directly   | Voting | Directly | Voting |                                |
| Guangzhou Data Exchange Service, Co., Ltd. <sup>(i)</sup> (廣州數據交易服務有限公司) . . . . .       | PRC                                  | PRC                          | —  | —      | 50%      | 40%    | Provision of big data services |
| Global Big Data Exchange (Wuhan) Co., Ltd. <sup>(i)(iii)</sup> (武漢長江大數據交易有限公司) . . . . . | PRC                                  | PRC                          | 51%  | 50%    | 51%      | 50%    | Provision of big data services |
| Beijing AsiaInfo Dataware Technology Co., Ltd. <sup>(iv)</sup> (北京亞信數據科技有限公司) . . . . .  | PRC                                  | PRC                          | —  | —      | 48.67%   | 50%    | Provision of big data services |

Notes:

(i) The English names of the companies are translated from their registered Chinese names for identification purpose only.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. INVESTMENTS IN JOINT VENTURES—continued

- (ii) The joint venture investments were disposed to a third-party company on November 3, 2017 and included as a part of the discontinued E-public Service Business included in Note 12.
- (iii) The Group held 51% of the equity interests in Global Big Data Exchange (Wuhan) Co., Ltd., (“Big Data Wuhan”). Pursuant to the shareholder agreement, the Group has the right to cast 50% of the votes at shareholder meetings of Big Data Wuhan.
- (iv) Beijing AsiaInfo Dataware Technology Co., Ltd. was sold to a related company, Beijing AsiaInfo (Xintong) Technology Co., Ltd. (“Beijing Xintong”) in 2017.

The summarized financial information in respect of each of the Group’s joint ventures is set out as follows:

(a) Guangzhou Data Exchange Service, Co., Ltd. (“Guangzhou Data”)

|   | <u>At<br/>December 31,<br/>2016</u> |                |
|---|-------------------------------------|----------------|
|   | <u>RMB’000</u>                      |                |
| Current assets . . . . .                                    | 4,872                               |                |
| Non-current assets . . . . .                                | 8                                   |                |
| Current liabilities . . . . .                               | <u>281</u>                          |                |
| Net assets . . . . .  | <u>4,599</u>                        |                |
|   | <u>Year ended<br/>December 31,</u>  |                |
|   | <u>2016</u>                         | <u>2017</u>    |
|   | <u>RMB’000</u>                      | <u>RMB’000</u> |
| Revenue . . . . .   | —                                   | 549            |
| Loss and total comprehensive expense for the year . . . . . | <u>(1,401)</u>                      | <u>(1,292)</u> |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the Historical Financial Information is as follows:

|   | <u>Year ended<br/>December 31,<br/>2016</u> |  |
|---|---|--|
|   | <u>RMB’000</u>                              |  |
| Net assets of Guangzhou Data . . . . .                                    | 4,599                                       |  |
|   | 4,599                                       |  |
| Proportion of the Group’s ownership interests in Guangzhou Data . . . . . | 50%   |  |
| Carrying amount of the Group’s interests in Guangzhou Data . . . . .      | <u>2,300</u>                                |  |

(b) Big Data Wuhan

|                                    | <u>At December 31,</u> |                |
|------------------------------------|------------------------|----------------|
|                                    | <u>2015</u>            | <u>2016</u>    |
|                                    | <u>RMB’000</u>         | <u>RMB’000</u> |
| Current assets . . . . .           | 8,465                  | 917            |
| Non-current assets . . . . .       | 824                    | 673            |
| Current liabilities . . . . .      | <u>482</u>             | <u>3,948</u>   |
| Net assets (liabilities) . . . . . | <u>8,807</u>           | <u>(2,358)</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. INVESTMENTS IN JOINT VENTURES—continued

(b) Big Data Wuhan—continued

|   | Year ended<br>December 31, |                 | For the<br>ten months<br>ended |
|---|----------------------------|-----------------|--------------------------------|
|   | 2015                       | 2016            | 2017                           |
|   | RMB’000                    | RMB’000         | RMB’000                        |
| Revenue .....   | —                          | —               | —                              |
| Loss and total comprehensive expense for the year ..... | <u>(3,194)</u>             | <u>(11,164)</u> | <u>(2,975)</u>                 |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the Historical Financial Information is as follows:

|  | Year ended December 31, |                |
|--|-------------------------|----------------|
|  | 2015                    | 2016           |
|  | RMB’000                 | RMB’000        |
| Net assets (liabilities) of Big Data Wuhan .....   | <u>8,807</u>            | <u>(2,358)</u> |
|  | 8,807                   | (2,358)        |
| Proportion of the Group’s ownership interests in Big Data Wuhan .....                              | <u>51%</u>              | <u>51%</u>     |
| Carrying amount of the Group’s interests in Big Data Wuhan .....                                   | <u>4,491</u>            | <u>—</u>       |
| Unrecognized share of loss and total comprehensive expense of Big Data<br>Wuhan for the year ..... | <u>—</u>                | <u>(1,203)</u> |

(c) Beijing AsiaInfo Dataware Technology Co., Ltd. (“Beijing Dataware”)

|                           | At<br>December 31, |  |
|---------------------------|--------------------|--|
|                           | 2016               |  |
|                           | RMB’000            |  |
| Current assets .....      | 14,011             |  |
| Non-current assets .....  | 818                |  |
| Current liabilities ..... | <u>19,121</u>      |  |
| Net liabilities .....     | <u>(4,292)</u>     |  |

|   | Year ended<br>December 31, |                 |
|---|----------------------------|-----------------|
|   | 2016                       | 2017            |
|   | RMB’000                    | RMB’000         |
| Revenue .....   | 763                        | 532             |
| Loss and total comprehensive expense for the year ..... | <u>(29,288)</u>            | <u>(23,606)</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. INVESTMENTS IN JOINT VENTURES—continued

(c) Beijing AsiaInfo Dataware Technology Co., Ltd. (“Beijing Dataware”)—continued

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the Historical Financial Information is as follows:

|  | Year ended<br>December 31,<br><u>2016</u> |
|--|---|
|  | RMB’000                                   |
| Net liabilities of Beijing Dataware .....  | (4,292)                                   |
|  | (4,292)                                   |
| Proportion of the Group’s ownership interests in Beijing Dataware .....              | 48.67%                                    |
| Carrying amount of the Group’s interests in Beijing Dataware .....                   | —   |
| Unrecognized share of loss and total comprehensive expense of Beijing Dataware ..... | <u>(2,089)</u>                            |

21. INVESTMENT IN SUBSIDIARIES

The Company

|                                  | At December 31, |               |               |
|----------------------------------|-----------------|---------------|---------------|
|                                  | <u>2015</u>     | <u>2016</u>   | <u>2017</u>   |
|                                  | RMB’000         | RMB’000       | RMB’000       |
| Investment in subsidiaries ..... | <u>71,430</u>   | <u>76,305</u> | <u>81,598</u> |

Note:

The balances represent the investment in subsidiaries which is carried at cost less impairment loss. There has been no impairment for each year during the Track Record Period.

22. AVAILABLE-FOR-SALE INVESTMENTS/ASSETS HELD FOR SALE

Available-for-sale investments

|                                     | At December 31, |               |              |
|-------------------------------------|-----------------|---------------|--------------|
|                                     | <u>2015</u>     | <u>2016</u>   | <u>2017</u>  |
|                                     | RMB’000         | RMB’000       | RMB’000      |
| Unlisted investments:               |                 |               |              |
| A wealth management product .....   | —               | 20,000        | —            |
| An unlisted equity investment ..... | 8,000           | 8,000         | 8,000        |
| Total cost .....                    | 8,000           | 28,000        | 8,000        |
| Accumulated impairment .....        | —               | —             | (4,335)      |
|                                     | <u>8,000</u>    | <u>28,000</u> | <u>3,665</u> |
| Analyzed for reporting purposes as: |                 |               |              |
| Current assets .....                | —               | 20,000        | 3,665        |
| Non-current assets .....            | 8,000           | 8,000         | —            |
|                                     | <u>8,000</u>    | <u>28,000</u> | <u>3,665</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. AVAILABLE-FOR-SALE INVESTMENTS/ASSETS HELD FOR SALE—continued

Available-for-sale investments—continued

The investment in a wealth management product is issued by a major and reputable commercial bank which had an original maturity less than one year. The Group estimated that its fair value approximated to the amount stated on the monthly investment reports provided by the bank.

The unlisted equity investment in the PRC held by the Group represents the investment in Baoku Online Inc. (“Baoku”), a private company incorporated in the PRC, primarily engaged in provision of travel management IT solution and maintenance service for airline companies. The interests of the equity investment held by the Group is 9.71%, without any rights to nominate directors, and such that the Group does not have a significant influence on the equity investment. The investment was measured at cost less impairment at the end of each year of the Track Record Period because (1) the investment did not have a quoted market price in an active market and (2) the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably and the probabilities of the various estimates cannot be reasonably assessed.

23. OTHER NON-CURRENT ASSETS

Other non-current assets consist of housing loan provided to employees, rental deposits and deposits for project performance.

|  | At December 31, |               |               |
|--|-----------------|---------------|---------------|
|  | 2015            | 2016          | 2017          |
|  | RMB’000         | RMB’000       | RMB’000       |
| Employee housing loan . . . . .        | 14,840          | 7,418         | 3,518         |
| Rental deposits . . . . .              | 17,729          | 32,855        | 33,429        |
| Project performance deposits . . . . . | 1,401           | 9,802         | 9,300         |
|  | <u>33,970</u>   | <u>50,075</u> | <u>46,247</u> |

The Group has launched an employee housing loan program that provides non-interest bearing loans to qualified employees with a five-year term since 2012. Such loan receivables are secured and recoverable upon demand as all employees are in service.

As at December 31, 2015, 2016 and 2017, the total outstanding amount of such employee loans granted under the program were RMB18,740,000, RMB10,390,000 and RMB5,510,000, respectively.

The employee loans that were due in more than one year were classified as other non-current assets. Such loans with due dates being less than one year were classified as other current assets and include in the balance of prepayments, deposits and other receivables (Note 26).

During the Track Record Period, the directors of the Company believe that no impairment allowance is necessary in respect of the loan receivables as there is no significant change in credit quality, the employees have been in service and the balances are considered fully recoverable.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. INVENTORIES

|   | At December 31, |              |              |
|---|-----------------|--------------|--------------|
|   | 2015            | 2016         | 2017         |
|   | RMB’000         | RMB’000      | RMB’000      |
| Computer hardware and software products ..... | <u>31,817</u>   | <u>2,297</u> | <u>7,100</u> |

25. TRADE AND NOTES RECEIVABLES

|  | At December 31, |                |                |
|--|-----------------|----------------|----------------|
|  | 2015            | 2016           | 2017           |
|  | RMB’000         | RMB’000        | RMB’000        |
| Trade receivables .....                  | 764,363         | 769,390        | 838,890        |
| Notes receivables .....                  | 27,777          | 11,813         | 56,638         |
| Less: allowance for doubtful debts ..... | <u>(4,649)</u>  | <u>(5,315)</u> | <u>(7,083)</u> |
|  | <u>787,491</u>  | <u>775,888</u> | <u>888,445</u> |

The Group generally grants credit period of 30 days from the dates of acceptance reports when the Group had the right to consideration becoming unconditional. The extension of credit period to the customers may be granted on a discretionary basis by considering customer type, the current creditworthiness and the customer’s financial condition and payment history with the Group.

Trade receivables relate to a number of independent customers that have a good track record with the Group. The allowance for doubtful debts of the Group is based on the evaluation of collectability and aging analysis of individual trade debts performed by the management. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer.

Notes receivables are bank acceptance notes, which management believes that no allowance is necessary as there is no significant change in credit quality and the balances are considered fully recoverable.

Aging of trade and notes receivables, net of allowance for doubtful debts, based on the dates when the Group has the right to bill, at the end of each year of the Track Record Period is as follows:

|                     | At December 31, |                |                |
|---------------------|-----------------|----------------|----------------|
|                     | 2015            | 2016           | 2017           |
|                     | RMB’000         | RMB’000        | RMB’000        |
| 1-30 days .....     | 488,818         | 492,768        | 511,500        |
| 31-90 days .....    | 137,286         | 164,904        | 184,986        |
| 91-180 days .....   | 124,700         | 77,551         | 113,042        |
| 181-365 days .....  | 25,943          | 30,359         | 65,755         |
| Over 365 days ..... | <u>10,744</u>   | <u>10,306</u>  | <u>13,162</u>  |
|                     | <u>787,491</u>  | <u>775,888</u> | <u>888,445</u> |

Trade receivables disclosed below are past due at the end of each year of the Track Record Period for which the Group has not recognized an allowance for doubtful debts because, based on past experience, the directors of the Company are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable and the Group is satisfied with the subsequent settlement. There is no past due for notes receivables.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. TRADE AND NOTES RECEIVABLES—continued

Aging of trade receivables that are past due but not impaired is as follows:

|                         | At December 31, |                |                |
|-------------------------|-----------------|----------------|----------------|
|                         | 2015            | 2016           | 2017           |
|                         | RMB’000         | RMB’000        | RMB’000        |
| 1- 90 days . . . . .    | 194,795         | 213,095        | 255,585        |
| 91–180 days . . . . .   | 58,625          | 32,479         | 64,863         |
| 181–365 days . . . . .  | 21,720          | 20,317         | 41,893         |
| Over 365 days . . . . . | 6,557           | 7,594          | 6,541          |
|                         | <u>281,697</u>  | <u>273,485</u> | <u>368,882</u> |

The Group provides allowance for trade receivables based on the evaluation of collectability and aging analysis. Certain judgment is applied in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of the customers. Reversals of allowance are made based on subsequent cash settlements collected, being partially or fully recovered.

Movements in the allowance for doubtful debts are as follows:

|  | At December 31, |              |              |
|--|-----------------|--------------|--------------|
|  | 2015            | 2016         | 2017         |
|  | RMB’000         | RMB’000      | RMB’000      |
| At beginning of the year . . . . .                     | 4,824           | 4,649        | 5,315        |
| Provision of allowance for trade receivables . . . . . | 1,651           | 1,027        | 5,766        |
| Reversal of allowance for trade receivables . . . . .  | (538)           | (356)        | (1,052)      |
| Written-off as uncollectible . . . . .                 | 171             | —            | (2,015)      |
| Disposal of subsidiaries . . . . .                     | (1,499)         | —            | (919)        |
| Exchange adjustments . . . . .                         | 40              | (5)          | (12)         |
| At end of the year . . . . .                           | <u>4,649</u>    | <u>5,315</u> | <u>7,083</u> |

Allowance for doubtful debts included individually impaired trade receivables with an aggregate gross principal balance of RMB10,744,000, RMB10,306,000 and RMB13,162,000 for the year ended December 31, 2015, 2016 and 2017, respectively, of which the Group does not expect it can be collected. The Group does not hold any collateral over these balances.

As at December 31, 2015, 2016 and 2017, no retention held by customers. The Group generally provides their customers with one to two years’ assurance-type warranty period free of charge. The warranty period may be extended in respect to certain projects. Prior to the beginning of warranty period, if the relevant projects have met the requirements in the contract, the customer will provide a acceptance report and pay the outstanding contract amounts per the terms specified in the contracts upon issuance of the acceptance reports.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|  | At December 31, |         |         |
|--|-----------------|---------|---------|
|  | 2015            | 2016    | 2017    |
|  | RMB’000         | RMB’000 | RMB’000 |
| Prepayment of value added tax                                  | 48,596          | 96,359  | 92,298  |
| Prepayment for outsourcing system supporting service           | 35,428          | 29,669  | 27,341  |
| Prepayment for technical service and telecommunication service | 6,056           | 11,861  | 18,927  |
| Project bidding and other deposits                             | 35,899          | 40,252  | 11,249  |
| Advances to suppliers  | 6,013           | 1,726   | 2,171   |
| Deferred issue costs   | —               | —       | 5,026   |
| Prepaid rental expenses  | 7,404           | 7,200   | 5,592   |
| Staff advances   | 1,707           | 3,245   | 4,358   |
| Interest receivable  | 2,108           | 5,544   | 4,135   |
| Prepaid lease payments (Note 16)                               | 3,175           | 2,019   | 2,019   |
| Employee housing loans   | 3,900           | 2,972   | 1,992   |
| Others   | 4,059           | 5,013   | 3,537   |
|  | 154,345         | 205,860 | 178,645 |
| Less: allowance for other receivables                          | —               | (1,525) | (2,144) |
|  | 154,345         | 204,335 | 176,501 |

Movements in the allowance for other receivables are as follows:

|  | At December 31, |         |         |
|--|-----------------|---------|---------|
|  | 2015            | 2016    | 2017    |
|  | RMB’000         | RMB’000 | RMB’000 |
| At beginning of the year                         | —               | —       | 1,525   |
| Provision of for allowance for other receivables | 1,586           | 1,525   | 1,123   |
| Written-off as uncollectible                     | (1,586)         | —       | (504)   |
| At end of the year                               | —               | 1,525   | 2,144   |

27. CONTRACT ASSETS AND CONTRACT LIABILITIES

The Group has rights to considerations from customers for the provision of software business and network security business. Contract assets arise when the Group has rights to considerations for completion of such services and not yet billed under the relevant contracts, and their rights are conditioned on factors other than passage of time. Any amount previously recognized as a contract assets are transferred to trade receivables when the rights become unconditional. Remaining rights and performance obligations in a particular contract are accounted for and presented on a net basis, as either a contract asset or a contract liability.

|   | At December 31, |           |           |
|---|-----------------|-----------|-----------|
|   | 2015            | 2016      | 2017      |
|   | RMB’000         | RMB’000   | RMB’000   |
| Analyzed for reporting purposes as follows: |                 |           |           |
| Contract assets                             | 1,650,905       | 1,683,234 | 1,632,039 |
| Contract liabilities                        | (647,356)       | (533,536) | (387,913) |

The contract assets are primarily related to the Group’s rights to consideration for work completed and not billed because the rights are conditioned on the Group’s future performance in achieving specified milestones at the reporting date. The contract assets are transferred to trade

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**27. CONTRACT ASSETS AND CONTRACT LIABILITIES—continued**

receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of acceptance reports issued by the customers when such right of collections becomes unconditional other than the passage of time.

For the contract liabilities as at December 31, 2015, 2016 and 2017, the entire balances were expected to be recognized as revenue during the year ended December 31, 2016 and 2017 and the year ending December 31, 2018, respectively.

As at December 31, 2015, 2016 and 2017, no retentions held by customers for contract work. The Group generally provides their customers with one to two years’ warranty period free of charge. The warranty period may be extended in respect to certain projects. Prior to the beginning of retention period, if the relevant projects have met the requirements in the contract, the customer will provide a final inspection and acceptance certificate and pay the outstanding contract amounts per the terms specified in the contracts upon issuance of the certificate.

**28. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH**

Pledged bank deposits

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group, obtain letters of credits or guarantees. Deposits amounting to RMB230,704,000, RMB523,770,000 and RMB537,089,000 had been pledged to secure facilities and other short-term bank borrowings, letters of credits, guarantees as at December 31, 2015, 2016 and 2017, respectively, and were, therefore, classified as current assets. The deposits amounting to RMB45,379,000, RMB71,020,000 and RMB39,669,000 had been pledged to secure long-term borrowings and were, therefore, classified as non-current assets for the respective year.

Pledged bank deposits of the Group carried interests at market rates which range from 0.3% to 3.0%, 0.3% to 2.8%, 0.3% to 2.8% as at December 31, 2015, 2016 and 2017, respectively.

Bank balances and cash

Bank balances and cash of the Group comprised cash held by the Group and bank balances that bear interest at prevailing market rates, per annum, ranging from 0.30% to 1.15%, 0.3% to 1.15% and 0.3% to 1.553% as at December 31, 2015, 2016 and 2017, respectively.

**29. DERIVATIVE FINANCIAL INSTRUMENTS**

In June 2014, the Group entered into foreign currency forward contracts to manage the foreign exchange risk arising from a customer project in Europe. Under the foreign currency forward contracts, the Group sells Euro (“EUR”) for U.S. dollar (“US\$”) at fixed exchange rates on certain expected dates when the Group collects Euro from the customer.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. DERIVATIVE FINANCIAL INSTRUMENTS—continued

The Group recorded these derivative financial instruments at fair value and the changes from the inception to the period end were included in the combined statements of profit or loss and other comprehensive income. The following table represented the fair value and carrying amount of derivative financial instruments for the year ended December 31, 2015:

|                                    | At<br>December 31,<br>2015<br>RMB’000 |
|------------------------------------|---------------------------------------|
| Foreign currency forward contracts |                                       |
| Current .....                      | 749                                   |
| Non-current .....                  | 9,643                                 |
|                                    | <u>10,392</u>                         |

Such contracts were disposed together with the discontinued International Business in 2016.

Major terms of the foreign currency forward contracts were as follows:

| <u>Notional amount</u> | <u>Inception date</u> | <u>Maturity date</u> | <u>Exchange rates</u> |
|------------------------|-----------------------|----------------------|-----------------------|
| Sell EUR 4,000,000     | June 10, 2014         | March 8, 2017        | EUR 1: US\$1.3548     |
| Sell EUR 2,000,260     | June 10, 2014         | September 6, 2017    | EUR 1: US\$1.3548     |

30. TRADE AND NOTES PAYABLES

|                      | At December 31, |                |                |
|----------------------|-----------------|----------------|----------------|
|                      | 2015            | 2016           | 2017           |
|                      | RMB’000         | RMB’000        | RMB’000        |
| Trade payables ..... | 595,677         | 711,050        | 529,808        |
| Notes payables ..... | 6,101           | 81,196         | 82,692         |
|                      | <u>601,778</u>  | <u>792,246</u> | <u>612,500</u> |

The table below sets forth, as at the end of each year of the Track Record Period indicated, the aging analysis of the trade and notes payables:

|                    | At December 31, |                |                |
|--------------------|-----------------|----------------|----------------|
|                    | 2015            | 2016           | 2017           |
|                    | RMB’000         | RMB’000        | RMB’000        |
| 1-90 days .....    | 332,417         | 325,900        | 233,444        |
| 91-180 days .....  | 166,744         | 72,117         | 84,739         |
| 181-365 days ..... | 73,467          | 216,091        | 74,079         |
| 1-2 years .....    | 17,492          | 166,480        | 173,673        |
| Over 2 years ..... | 11,658          | 11,658         | 46,565         |
|                    | <u>601,778</u>  | <u>792,246</u> | <u>612,500</u> |

The average credit period on purchases of goods and services is 90 days. The Group has financial risk management policies in place to ensure that sufficient working capital is maintained to meet its obligations when they fall due.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

|  | At December 31,  |                  |                  |
|--|------------------|------------------|------------------|
|  | 2015             | 2016             | 2017             |
|  | RMB’000          | RMB’000          | RMB’000          |
| Accrued payroll and welfare .....        | 1,324,852        | 1,399,315        | 1,601,912        |
| Accrued expenses .....                   | 87,932           | 87,158           | 122,336          |
| Other tax payables .....                 | 63,247           | 71,538           | 85,601           |
| Accrued [REDACTED] and issue costs ..... | —                | —                | 31,153           |
| Employee reimbursement payable .....     | 21,451           | 21,984           | 19,607           |
| Advance from customers .....             | 11,293           | 15,064           | 14,148           |
| Other payable .....                      | 13,828           | 5,970            | 3,352            |
| Accrued liabilities .....                | 16,512           | 6,951            | 3,665            |
| Others .....                             | 1,751            | 3,060            | 8,726            |
|  | <u>1,540,866</u> | <u>1,611,040</u> | <u>1,890,500</u> |

32. BANK BORROWINGS

|   | At December 31,  |                  |                  |
|---|------------------|------------------|------------------|
|   | 2015             | 2016             | 2017             |
|   | RMB’000          | RMB’000          | RMB’000          |
| Analysed as:  |                  |                  |                  |
| Secured bank borrowings carrying interest at variable rates . . . | 1,372,848        | 1,776,195        | 1,747,337        |
| Unsecured bank borrowings carrying interest at fixed-rates . . .  | 74,944           | 500,792          | —                |
|   | <u>1,447,792</u> | <u>2,276,987</u> | <u>1,747,337</u> |
| Carrying amount repayable:  |                  |                  |                  |
| Within one year .....   | 422,352          | 1,237,502        | 1,154,593        |
| More than one year but not exceeding two years .....              | 259,744          | 416,220          | 592,744          |
| More than two years but not exceeding five years .....            | 765,696          | 623,265          | —                |
|   | <u>1,447,792</u> | <u>2,276,987</u> | <u>1,747,337</u> |

The Group had bank borrowings denominated in both US\$ and RMB as at December 31, 2015 and 2016 and solely in US\$ as at December 31, 2017.

The US\$ bank borrowings from an offshore bank were secured by the equity interests of AsiaInfo Technologies HK and its subsidiaries, pursuant to the loan agreement and equity interest pledge agreement in relation to the loan agreement.

|                                     | At December 31,  |                  |                  |
|-------------------------------------|------------------|------------------|------------------|
|                                     | 2015             | 2016             | 2017             |
|                                     | RMB’000          | RMB’000          | RMB’000          |
| Analysis of borrowings by currency: |                  |                  |                  |
| Denominated in US\$ .....           | 1,372,848        | 1,776,195        | 1,747,337        |
| Denominated in RMB .....            | 74,944           | 500,792          | —                |
|                                     | <u>1,447,792</u> | <u>2,276,987</u> | <u>1,747,337</u> |
| Total borrowings carried at:        |                  |                  |                  |
| Floating rates .....                | 1,372,848        | 1,776,195        | 1,747,337        |
| Fixed rates .....                   | 74,944           | 500,792          | —                |
|                                     | <u>1,447,792</u> | <u>2,276,987</u> | <u>1,747,337</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. BANK BORROWINGS—continued

Interests on bank borrowings denominated in US\$ are at variable interest rates based on London InterBank Offered Rate plus 2% to 3.2%, 0.7% to 3.2% and 1% to 3.2% as at December 31, 2015, 2016 and 2017, respectively.

Interests on bank borrowings denominated in RMB at fixed rates are calculated based on the borrowing rates announced by the People’s Bank of China. The interest rate of RMB bank borrowings are charged at 4.22% to 5.90%, 4.57% to 4.79% and 4.35% to 4.79% per annum as at December 31, 2015, 2016 and 2017, respectively. The RMB bank borrowings were fully repaid in 2017.

The Group’s short-term borrowings, long-term borrowings and payables do not contain any financial covenants. As at December 31, 2015, 2016 and 2017, the Group had unutilized committed credit facilities amounting to RMB549,284,000, RMB1,117,467,000 and RMB1,440,900,000, respectively.

33. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

|                                | At December 31, |               |               |
|--------------------------------|-----------------|---------------|---------------|
|                                | 2015            | 2016          | 2017          |
|                                | RMB’000         | RMB’000       | RMB’000       |
| Deferred tax assets .....      | 122,911         | 168,103       | 194,389       |
| Deferred tax liabilities ..... | (103,682)       | (109,343)     | (130,971)     |
|                                | <u>19,229</u>   | <u>58,760</u> | <u>63,418</u> |

The following are the major deferred tax assets (liabilities) recognized from continuing operation and movement thereon during the Track Record Period:

|  | Impairment loss | Accrued payroll and welfare | Accrued expense | Tax losses     | Undistributable profits of the PRC subsidiaries | Intangible assets | Total         |
|--|-----------------|-----------------------------|-----------------|----------------|---|-------------------|---------------|
|  | RMB’000         | RMB’000                     | RMB’000         | RMB’000        | RMB’000   | RMB’000           | RMB’000       |
| At January 1, 2015 .....                   | 1,391           | 69,021                      | 8,661           | —              | (66,589)  | (33,797)          | (21,313)      |
| Credited (charged) to profit or loss ..... | <u>1,471</u>    | <u>36,901</u>               | <u>5,466</u>    | <u>—</u>       | <u>(16,987)</u>                                 | <u>13,691</u>     | <u>40,542</u> |
| At December 31, 2015 .....                 | 2,862           | 105,922                     | 14,127          | —              | (83,576)  | (20,106)          | 19,229        |
| Credited (charged) to profit or loss ..... | <u>18</u>       | <u>(15,403)</u>             | <u>39,877</u>   | <u>20,700</u>  | <u>(15,072)</u>                                 | <u>9,411</u>      | <u>39,531</u> |
| At December 31, 2016 .....                 | 2,880           | 90,519                      | 54,004          | 20,700         | (98,648)  | (10,695)          | 58,760        |
| Credited (charged) to profit or loss ..... | <u>493</u>      | <u>32,034</u>               | <u>936</u>      | <u>(7,177)</u> | <u>(26,861)</u>                                 | <u>5,233</u>      | <u>4,658</u>  |
| At December 31, 2017 .....                 | <u>3,373</u>    | <u>122,553</u>              | <u>54,940</u>   | <u>13,523</u>  | <u>(125,509)</u>                                | <u>(5,462)</u>    | <u>63,418</u> |

As at December 31, 2015, 2016 and 2017, the Group has unused tax losses of RMB521,649,000, RMB883,909,000 and RMB980,787,000 available for offset against future profits. A deferred tax asset has been recognized in respect of RMB82,802,000 and RMB54,092,000 at December 31, 2016 and 2017 of such losses.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33. DEFERRED TAXATION—continued

No deferred tax assets has been recognized in respect of the remaining tax losses of RMB521,649,000, RMB801,107,000 and RMB926,695,000 at December 31, 2015, 2016 and 2017, respectively, due to the unpredictability of future profit streams.

The unrecognized tax losses with expiring dated are summarized below:

|                                     | At December 31, |                |                |
|-------------------------------------|-----------------|----------------|----------------|
|                                     | 2015            | 2016           | 2017           |
| <i>Unused tax loss expiring in:</i> | RMB’000         | RMB’000        | RMB’000        |
| 2019 .....                          | 3               | —              | —              |
| 2020 .....                          | 46,752          | 15,041         | 1,022          |
| 2021 .....                          | —               | 88,888         | 88,888         |
| 2022 .....                          | —               | —              | 32,936         |
|                                     | <u>46,755</u>   | <u>103,929</u> | <u>122,846</u> |

The Group has also contain unused tax losses without expiring dates, amounting to RMB474,894,000, RMB697,178,000 and RMB803,849,000 as at December 31, 2015, 2016 and 2017, respectively.

Deferred tax assets are recognized if it is probable that all of the deferred tax assets will be realized through the recovery of taxes previously paid and/or further taxable income. The directors of the Company have reviewed its deferred tax assets at the end of each year of Track Record period and considered that it was probable that the deferred tax assets of the Group will be realized through further taxable income based on directors’ assessment of the probability that taxable profits will be available over the years which the deferred tax assets can be realized or utilized.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or further cash flows will be, classified in the Group’s combined statements of cash flows from financing activities.

|   | Accrued<br>issue<br>costs | Bank<br>borrowings | Amounts<br>due to<br>related<br>parties | Total       |
|---|---------------------------|--------------------|---|-------------|
|   | RMB’000                   | RMB’000            | RMB’000                                 | RMB’000     |
| At January 1, 2015  | —                         | —                  | 42,161                                  | 42,161      |
| Financing cash flows <sup>(i)</sup>                           | —                         | 210,667            | (310,286)                               | (99,619)    |
| Non-cash push-down debt from related parties <sup>(ii)</sup>  | —                         | 1,196,567          | —                                       | 1,196,567   |
| Dividend declared <sup>(ii)</sup>                             | —                         | —                  | 2,191,258                               | 2,191,258   |
| Settled with amounts due from related parties <sup>(ii)</sup> | —                         | —                  | (1,651,052)                             | (1,651,052) |
| Effect of exchange differences                                | —                         | 34,483             | 6,323                                   | 40,806      |
| Interest expense <sup>(ii)</sup>                              | —                         | 6,075              | —                                       | 6,075       |
| At December 31, 2015  | —                         | 1,447,792          | 278,404                                 | 1,726,196   |
| Financing cash flows <sup>(i)</sup>                           | —                         | 634,425            | (167,671)                               | 466,754     |
| Dividend paid <sup>(i)</sup>                                  | —                         | —                  | (445,355)                               | (445,355)   |
| Settled with amounts due from related parties <sup>(ii)</sup> | —                         | —                  | 619,190                                 | 619,190     |
| Effect of exchange differences <sup>(ii)</sup>                | —                         | 100,865            | 13,760                                  | 114,625     |
| Interest expense <sup>(ii)</sup>                              | —                         | 93,905             | —                                       | 93,905      |
| At December 31, 2016  | —                         | 2,276,987          | 298,328                                 | 2,575,315   |
| Financing cash flows <sup>(i)</sup>                           | (4,476)                   | (501,119)          | (46,921)                                | (552,516)   |
| Settled with amounts due from related parties <sup>(ii)</sup> | —                         | —                  | (35,098)                                | (35,098)    |
| Deferred issue costs <sup>(ii)</sup>                          | 5,026                     | —                  | —                                       | 5,026       |
| [REDACTED] <sup>(ii)</sup>                                    | 30,603                    | —                  | —                                       | 30,603      |
| Effect of exchange differences <sup>(ii)</sup>                | —                         | (112,517)          | (942)                                   | (113,459)   |
| Interest expense <sup>(ii)</sup>                              | —                         | 83,986             | —                                       | 83,986      |
| At December 31, 2017  | 31,153                    | 1,747,337          | 215,367                                 | 1,993,857   |

Notes:

- (i) The financing cash flows represent the net amount of new bank borrowings raised, repayment of bank borrowings, advance to related parties, repayment from related parties and dividend distribution.
- (ii) Amounts, including amounts due to related parties, effect of exchange difference, interest expenses, deferred issue costs and [REDACTED], represent the non-cash changes.

35. PAID-IN/SHARE CAPITAL

The Group

For the purpose of the presentation of the combined statements of financial position, the share capital of the Group represents the share capital of AsiaInfo Technologies HK as at January 1, 2015, December 31, 2015, 2016 and 2017 prior to the completion of the Reorganization and the paid-in capital of AsiaInfo Big Data amounting to US\$44,440,417 (equivalent to RMB285,200,000) which was acquired as a business combination under common control in 2017.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35. PAID-IN/SHARE CAPITAL—continued

The Company

Details of the movement of share capital of the Company are as follows:

|  | Nominal value    |           |                                 |
|--|------------------|-----------|---------------------------------|
|  | Number of shares | Per share | Share capital                   |
|  |                  | US\$      | US\$                            |
| <u>Authorized</u>                                |                  |           |                                 |
| At July 15, 2003 (date of corporation) . . . . . | 500,000          | 0.1       | 50,000                          |
| At January 1, 2015 . . . . .                     | 500,000          | 0.1       | 50,000                          |
| At December 31, 2015 . . . . .                   | 500,000          | 0.1       | 50,000                          |
| At December 31, 2016 . . . . .                   | 500,000          | 0.1       | 50,000                          |
| At December 31, 2017 . . . . .                   | 500,000          | 0.1       | 50,000                          |
| <u>Issued</u>                                    |                  |           |                                 |
| At July 15, 2003 (date of corporation) . . . . . | 6,457            | 0.1       | 645.7                           |
| Issued during the years . . . . .                | 2,831            | 0.1       | 283.1                           |
| At January 1, 2015 . . . . .                     | 9,288            | 0.1       | 928.8                           |
| At December 31, 2015 . . . . .                   | 9,288            | 0.1       | 928.8                           |
| At December 31, 2016 . . . . .                   | 9,288            | 0.1       | 928.8                           |
| At December 31, 2017 . . . . .                   | 9,288            | 0.1       | 928.8                           |
|  |                  |           | <b>At December 31,<br/>2017</b> |
|  |                  |           | <u>&lt;RMB’000s&gt;</u>         |
| Presented as . . . . .                           |                  |           | <u>8</u>                        |

36. NON-CONTROLLING INTERESTS

|   | At December 31, |         |          |
|---|-----------------|---------|----------|
|   | 2015            | 2016    | 2017     |
|   | RMB’000         | RMB’000 | RMB’000  |
| Balance at beginning of the year . . . . .  | 1,232           | 4,105   | 26,415   |
| Loss for the year . . . . .   | (5,460)         | (9,438) | (10,822) |
| Acquisition of additional interests in a subsidiary <sup>(ii)</sup> . . . . .                     | (741)           | (5,646) | —        |
| Effect from capital contribution by non-controlling interest shareholder <sup>(i)</sup> . . . . . | 9,232           | 37,633  | —        |
| Dividend distribution . . . . .   | (158)           | —       | —        |
| Other comprehensive expense . . . . .   | —               | 28      | (34)     |
| Disposal of subsidiaries <sup>(iii)</sup> . . . . .   | —               | (267)   | 4,382    |
| Balance at end of the year . . . . .  | 4,105           | 26,415  | 19,941   |

Notes:

(i) In 2015, two third-party non-controlling shareholding companies injected capital contribution of RMB9,348,000 in the Group’s wholly-owned subsidiaries, Ha’erbin Big Data Exchange Center Limited and Software BVI with capital injections, amounting to RMB3,600,000 and RMB5,748,000, respectively, and acquired 30% and 12% of the equity interests in the two respective subsidiaries. Upon the capital injection, the Group then held 70% and 88% of equity interests in Ha’erbin Big Data Exchange Center Limited and Software BVI in 2015.

The amount in 2016 represents two capital contributions from non-controlling shareholders amounting to RMB37,633,000, one of which resulted in an increase in the non-controlling interest amount of 7,000,000 when a third-party company injected in Xianyang AsiaInfo Innovation Technologies Limited (“Xianyang AsiaInfo”) for 44.75% equity interest, offsetting by another capital contribution in Beijing AsiaInfo Smart Big Data Co., Ltd. (“Smart Big Data”), by certain third-party shareholders which resulted in a decrease in the non-controlling interest.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. NON-CONTROLLING INTERESTS—continued

On September 30, 2016, the Group entered into agreements with certain third-party companies, pursuant to which the third-party companies made an aggregated capital injection of RMB210,000,000 to acquire 7.977% equity interests in Smart Big Data, which was previously fully owned by the Group. As Smart Big Data had a net assets of RMB124,031,000 on the date of injection, the contribution of the non-controlling shareholders resulted in a non-controlling interest balance amount of 30,633,000, which represents the net assets shared by the non-controlling shareholders as at the capital contribution date.

- (ii) During the year ended December 31, 2016, the Group acquired 49% non-controlling interest in Guangzhou AsiaInfo Big Data Limited. (“Guangzhou AsiaInfo Big Data”) from a third-party individual for a total consideration of RMB34,691,000. The difference between the cash received and the carrying amount of the non-controlling interest, amounting to RMB29,045,000, was recognized in other reserve. Upon the acquisition, Guangzhou AsiaInfo Big Data became a wholly-owned subsidiary of the Group.
- (iii) In August 2017 and October 2017, the Group disposed of Software BVI and Beijing AsiaInfo Century Big Data Co., Ltd. (Note 44), respectively, with an aggregated effect of RMB4,383,000 to non-controlling shareholders, relating to the disposal of related assets or liabilities. The amounts previously recognized in other comprehensive income were transferred to other reserve.

37. DIVIDENDS

In December 2015, the board of directors of AsiaInfo Technologies HK approved for a series of dividend distribution to its then immediate holding company, AsiaInfo Holdings, pursuant to which a series of agreements were signed to distribute AsiaInfo Technologies HK’s dividends with an aggregate amount of US\$339,999,000 (equivalent to RMB2,191,258,000), of which RMB1,629,776,000 were settled during the Track Record Period, by (1) the transfer of the investment in Bonson BVI (Note 44) in 2015, amounting to US\$28,858,324 (equivalent to RMB185,989,000), to AsiaInfo Holdings; (2) the offsetting of the amount due from AsiaInfo Holdings balance, amounting to US\$154,806,000 (equivalent to RMB998,432,000); and (3) a cash dividend payment, amounting to US\$64,200,000 (equivalent to RMB445,355,000) made to AsiaInfo Holdings in 2016.

The remaining dividend payable balance of RMB561,502,000 was recorded as an amount due from related parties at December 31, 2016 and 2017 during the Track Record Period.

No other dividend has been paid or declared by the Company or by other companies comprising the Group during the Track Record Period. The rates of dividend and the number of shares ranking for distribution are not presented as such information is not meaningful having regard to the purpose of this report because the Group’s Reorganization had not been completed when the above dividends were declared.

38. RESERVES OF THE COMPANY

The movements in the reserves of the Company are shown as follows:

|   | Share<br>premium<br>reserve | Translation<br>reserve | Retained<br>profits | Total    |
|---|-----------------------------|------------------------|---------------------|----------|
|   | RMB’000                     | RMB’000                | RMB’000             | RMB’000  |
| At January 1, 2015  | 104,146                     | (21,123)               | (42,892)            | 40,131   |
| Profit and total comprehensive income for the year                  | —                           | 2,457                  | 1                   | 2,458    |
| At December 31, 2015  | 104,146                     | (18,666)               | (42,891)            | 42,589   |
| Profit (loss) and total comprehensive income (expense) for the year | —                           | 2,909                  | (1)                 | 2,908    |
| At December 31, 2016  | 104,146                     | (15,757)               | (42,892)            | 45,497   |
| Profit (loss) and total comprehensive (expense) income for the year | 9,723                       | (2,642)                | (26,125)            | (19,044) |
| At December 31, 2017  | 113,869                     | (18,399)               | (69,017)            | 26,453   |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure entities in the Group will be able to continue as a going concern with maximizing the return to shareholders through the optimization of the debt and equity balance. The Group’s overall strategy remains unchanged over the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in Note 32, net of cash and cash equivalents, and total equity of the Group, comprising share capital and reserves.

The directors of the Company reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through raising of new capital, issue of new debt or the redemption of the existing debts.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

|   | At December 31, |           |           |
|---|-----------------|-----------|-----------|
|   | 2015            | 2016      | 2017      |
|   | RMB’000         | RMB’000   | RMB’000   |
| <b>Financial assets</b>   |                 |           |           |
| Available-for-sale investments . . . . .                              | 8,000           | 28,000    | 3,665     |
| Loans and receivables (including cash and cash equivalents) . . . . . | 3,253,932       | 3,955,041 | 3,898,308 |
| Derivative financial instruments . . . . .                            | 10,392          | —         | —         |
| <b>Financial liabilities</b>  |                 |           |           |
| Liabilities measured at amortized cost . . . . .                      | 2,810,661       | 3,409,752 | 2,627,024 |

Financial risk management objectives and policies

The Group’s major financial instruments include available-for-sale investments, trade and notes receivables, other receivables, other non-current assets, amounts due from related parties, pledged bank deposits, bank balances and cash, trade and notes payables, other payables, amounts due to related parties, bank borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

*Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, pledged bank deposits and bank balances. The Group keeps its bank borrowings, pledged bank deposits and bank balances at floating rate of interests so as to minimize the fair value interest rate risk. The Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. FINANCIAL INSTRUMENTS—continued

*Market risk—continued*

*Interest rate risk—continued*

Benchmark Lending Rate of the London Interbank Offered Rate arising from the Group’s US\$ denominated borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings.

The Group currently does not have an interest rate hedging policy to mitigate interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and cash, pledged bank deposits and variable rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group’s post-tax profit for the years ended December 31, 2015, 2016 and 2017 would increase/decrease by RMB5,968,000, RMB8,454,000 and RMB8,505,000, respectively. This is mainly attributable to the Group’s exposure to interest rates on its bank balances and pledged bank deposits and partially offset by the impact from bank borrowings.

*Currency risk*

The Group has bank balances which are denominated in foreign currencies, mainly US\$, as at December 31, 2015, 2016 and 2017 and bank borrowings which are denominated in foreign currencies, mainly US\$, as at December 31, 2015, 2016 and 2017 that are exposed to currency risk.

The carrying amounts of the Group’s foreign currency denominated monetary assets and liabilities at the end of each of the three years during the Track Record Period are set forth as follows:

The Group

|            | At December 31,  |                  |                  |
|------------|------------------|------------------|------------------|
|            | 2015             | 2016             | 2017             |
|            | RMB’000          | RMB’000          | RMB’000          |
| Assets     |                  |                  |                  |
| US\$ ..... | 210,209          | 102,167          | 60,283           |
| HKD .....  | 5,013            | 8,288            | 1,225            |
| GBP .....  | 11,543           | 338              | 342              |
| NPR .....  | 2,731            | 55               | 55               |
| EUR .....  | 411              | 3,106            | —                |
| DKK .....  | 8,983            | —                | —                |
|            | <u>238,890</u>   | <u>113,954</u>   | <u>61,905</u>    |
| Liability  |                  |                  |                  |
| US\$ ..... | <u>1,372,848</u> | <u>1,776,195</u> | <u>1,747,337</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. FINANCIAL INSTRUMENTS—continued

*Market risk—continued*

Sensitivity analysis—continued

*Currency risk—continued*

The Company

|            | At December 31, |         |         |
|------------|-----------------|---------|---------|
|            | 2015            | 2016    | 2017    |
|            | RMB’000         | RMB’000 | RMB’000 |
| Assets     |                 |         |         |
| US\$ ..... | 3,604           | 3,851   | 2       |

The Group has related party borrowing balances which are denominated in foreign currency, US\$, as at December 31, 2015, 2016 and 2017 that are exposed to currency risk.

Related Party

|                                 | At December 31, |         |         |
|---------------------------------|-----------------|---------|---------|
|                                 | 2015            | 2016    | 2017    |
|                                 | RMB’000         | RMB’000 | RMB’000 |
| Amount due from related parties | 483,644         | 625,580 | 654,597 |
| Amount due to related parties   | —               | 58,442  | —       |

Foreign currency sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to foreign currency rates and includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external bank borrowings from the PRC banks’ oversea branches. A 5% increase or decrease is used when reporting foreign currency rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign currency rates.

If RMB has been appreciated/depreciated 5% against the foreign currency and all other variable were held constant, the Group’s post-tax profit for the years ended December 31, 2015, 2016 and 2017 would increase/decrease by RMB11,814,000, RMB17,991,000 and RMB12,981,000, respectively. This is mainly attributable to the Group’s exposure to foreign currency rates of US\$ on its bank borrowings and the foreign currency bank balances as at December 31, 2015, 2016 and 2017.

***Credit risk***

The Group’s maximum exposure to credit risk which causes a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position.

The Group’s credit risk is primarily attributable to its trade and notes receivables, other receivables, other non-current assets and amount due from related parties. An allowance for doubtful debts for trade and notes receivables, other receivables, other non-current assets and amount due from related parties is made when there is an identified loss event which, based on previous experience and

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. FINANCIAL INSTRUMENTS—continued

*Credit risk—continued*

management’s assessment of the current economic environment and the financial condition of counterparties, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of the Group’s treasury operations, management has established internal procedures to monitor the Group’s bank balances and cash, investments to be placed and entered into with financial institution of good reputation. These internal procedures help to minimize the Group’s credit risk exposure.

The credit risk on bank balances and pledged bank deposits is limited because the counterparties are banks with high credit rating.

The Group has concentration of credit risk on amounts due from related parties. Amounts due from related parties amounted to RMB237,925,000, RMB972,326,000 and RMB889,378,000 as at December 31, 2015, 2016 and 2017, respectively. In the opinion of directors of the Company, credit risk is not significant as the counterparties are controlled by the controlling shareholders.

Due to the nature of business of the Group, the Group has significant concentration of credit risk on a number of customers. During the years ended December 31, 2015, 2016 and 2017, the aggregate amount of the Group’s revenue amount to the top three customers was RMB4,622,256,000, RMB4,644,565,000 and RMB4,755,609,000, representing 97.0%, 95.6% and 96.1% of the total revenue of the Group for the years indicated, respectively; The aggregated balance of the Group’s trade and note receivables from the top three customers was RMB691,665,000, RMB705,946,000 and RMB816,157,000, representing 87.8%, 91.0% and 91.9% of the total trade and note receivables as at December 31, 2015, 2016 and 2017, respectively. In addition, the Group’s concentration of credit risk by geographical locations is solely in the PRC. In the opinion of directors of the Company, those customers are mainly large telecommunication companies owned by the PRC government with good financial backgrounds.

*Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the directors of the Company, who have established an appropriate liquidity risk management framework for the management of the Group’s short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. FINANCIAL INSTRUMENTS—continued

*Liquidity risk—continued*

The following table details the Group’s remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

|  | Weighted<br>average<br>effective<br>interest rate | On<br>demand or<br>within<br>3 months | 3 months to<br>1 year | 1-5 years        | Total<br>undiscounted<br>cash flow | Carrying<br>value |
|--|---|---------------------------------------|-----------------------|------------------|------------------------------------|-------------------|
|  | %   | RMB’000                               | RMB’000               | RMB’000          | RMB’000                            | RMB’000           |
| At December 31, 2015                       |   |                                       |                       |                  |                                    |                   |
| Financial liabilities                      |   |                                       |                       |                  |                                    |                   |
| Trade and notes payables                   | —   | 601,778                               | —                     | —                | 601,778                            | 601,778           |
| Other payables                             | —   | 13,828                                | —                     | —                | 13,828                             | 13,828            |
| Amounts due to fellow subsidiaries         | —   | 278,404                               | —                     | —                | 278,404                            | 278,404           |
| Bank borrowings                            | 3.6334%   | —                                     | 437,697               | 1,131,190        | 1,568,887                          | 1,447,792         |
|  |   | <u>894,010</u>                        | <u>437,697</u>        | <u>1,131,190</u> | <u>2,462,897</u>                   | <u>2,341,802</u>  |
| At December 31, 2016                       |   |                                       |                       |                  |                                    |                   |
| Financial liabilities                      |   |                                       |                       |                  |                                    |                   |
| Trade and notes payables                   | —   | 792,246                               | —                     | —                | 792,246                            | 792,246           |
| Other payables                             | —   | 5,970                                 | —                     | —                | 5,970                              | 5,970             |
| Amount due to a joint venture              | —   | 2,482                                 | —                     | —                | 2,482                              | 2,482             |
| Amounts due to fellow subsidiaries         | —   | 290,712                               | —                     | —                | 290,712                            | 290,712           |
| Amount due to immediate holding<br>company | —   | 5,134                                 | —                     | —                | 5,134                              | 5,134             |
| Bank borrowings                            | 3.7646%   | —                                     | 1,284,089             | 1,144,487        | 2,428,576                          | 2,276,987         |
|  |   | <u>1,096,544</u>                      | <u>1,284,089</u>      | <u>1,144,487</u> | <u>3,525,120</u>                   | <u>3,373,531</u>  |
| At December 31, 2017                       |   |                                       |                       |                  |                                    |                   |
| Financial liabilities                      |   |                                       |                       |                  |                                    |                   |
| Trade and notes payables                   | —   | 612,500                               | —                     | —                | 612,500                            | 612,500           |
| Other payables                             | —   | 3,352                                 | —                     | —                | 3,352                              | 3,352             |
| Amounts due to fellow subsidiaries         | —   | 200,672                               | —                     | 14,695           | 215,367                            | 215,367           |
| Bank borrowings                            | 3.2709%   | —                                     | 1,192,359             | 637,253          | 1,829,612                          | 1,747,337         |
|  |   | <u>816,524</u>                        | <u>1,192,359</u>      | <u>651,948</u>   | <u>2,660,831</u>                   | <u>2,578,556</u>  |

**Fair value measurement**

*Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis.*



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. FINANCIAL INSTRUMENTS—continued

*Fair value measurement—continued*

This note provides information about how the Group determines fair values of the following financial assets.

|  | Fair value as at December 31, |         |         | Fair value hierarchy | Valuation technique and key input   |
|--|-------------------------------|---------|---------|----------------------|---|
|  | 2015                          | 2016    | 2017    |                      |   |
|  | RMB’000                       | RMB’000 | RMB’000 |                      |   |
| Available-for-sale investments               |                               |         |         |                      |   |
| A wealth management product . . .            | —                             | 20,000  | —       | Level 2              | Discounted cash flow – future cash flows are estimated based on contractual terms of the wealth management product and discounted at a rate that reflect the credit risk of counterparties. |
| Derivative financial instruments             |                               |         |         |                      |   |
| Foreign currency forward contracts . . . . . | 10,392                        | —       | —       | Level 2              | Exchange rate – the fair value was calculated based on the exchange rate provided by the bank at each end of the Track Record Period.   |

There were no transfers between Level 1 and 2 during the Track Record Period.

*Fair value of the Group’s financial assets and financial liabilities that are not measured at fair value on a recurring basis*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values due to short maturity, initially recognised close to the end of reporting period, or with floating interest rates.

41. SHARE-BASED PAYMENTS

During the Track Record Period, the Group did not issue its own stock option scheme. The employees of the Company and its subsidiaries are eligible for the 2011 stock incentive plan (the “2011 Plan”) and the 2014 stock incentive plan (the “2014 Plan”) adopted by the Company’s immediate holding company, AsiaInfo Holdings and ultimate holding company, Skipper Holdings, respectively. Accordingly, the Group accounted for such plans by measuring the services received from the grantee in accordance with the requirement applicable to equity-settled share-based payment transactions, and recognized a corresponding increase in equity as a contribution from the parent companies in accordance with HKFRS 2 *Share-based Payment*.

2011 Plan

On April 21, 2011, AsiaInfo Holdings approved a stock incentive plan with the purpose of enhancing the long-term stockholder value by offering employees and directors to participate in the Group’s growth and success and to encourage them to remain the service in the Group. The 2011 Plan is valid and effective for 10 years from the approval date. Under the 2011 Plan, AsiaInfo Holdings is

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. SHARE-BASED PAYMENTS—continued

2011 Plan—continued

authorized to grant participants restricted stock awards, stock options, or other types of equity incentives with a total number of 7,501,752 ordinary shares of AsiaInfo Holdings.

Furthermore, in connection with the privatization and delisting from NASDAQ of AsiaInfo Holdings, the share incentives granted under the 2011 Plan were converted into the share incentive issued by Skipper Holdings with granting the equivalent numbers of ordinary shares of Skipper Holdings without any change of terms as stated under the 2011 Plan in 2014.

*Stock Options under the 2011 Plan*

In December 2011, pursuant to the 2011 Plan, the compensation committee of the board of directors of AsiaInfo Holdings approved to grant options to certain employees and executive officers. The stock options are valid and effective for 10 years from the approval date and have graded vesting terms of four years and vest in different schedules from the grant date, on condition that employees remain in service without any performance requirements. For the stock options granted to employees of the Group, they will be vested on annual basis equally over four years, 25% on each anniversary of the grant date. For the stock options granted to the then chief executive officer, 17.5%, 17.5%, 32.5% and 32.5% are vested at each anniversary of the grant date over four years. For the stock options granted to the vice president of AsiaInfo Holdings, 20%, 20%, 30% and 30% are vested at each anniversary of the grant date over four years. For the stock options granted in 2017, 0%, 50%, 25% and 25% are vested at each anniversary of the grant date over four years.

The fair value of each stock option was calculated using the Binomial option-pricing model. Option valuation models require the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying share, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options.

The movements of stock options held by the Group’s employees and directors under the 2011 Plan are summarized as follows:

|  | <u>Number of<br/>stock options</u> | <u>Weighted<br/>average<br/>exercise price<br/>per option (US\$)</u> |
|--|------------------------------------|--|
| Outstanding as at January 1, 2015 .....          | 3,201,571                          |  |
| Forfeited .....                                  | (119,769)                          | 4.42   |
| Transfer out upon disposal of a subsidiary ..... | (384,177)                          | 4.42   |
| Outstanding as at December 31, 2015 .....        | 2,697,625                          |  |
| Forfeited .....                                  | (3,000)                            | 4.42   |
| Exercised .....                                  | (89,875)                           | 4.42   |
| Outstanding as at December 31, 2016 .....        | 2,604,750                          |  |
| Granted .....                                    | 659,398                            | 4.42   |
| Forfeited .....                                  | (54,000)                           | 4.42   |
| Exercised .....                                  | (2,936,681)                        | 4.42   |
| Outstanding as at December 31, 2017 .....        | <u>273,467</u>                     |  |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. SHARE-BASED PAYMENTS—continued

2011 Plan—continued

*RSUs under the 2011 Plan*

Under the 2011 Plan, AsiaInfo Holdings granted certain RSUs to the directors of the Company and employees of the Group.

The RSUs vest in two equal installments on the 6-month and 12-month anniversaries of the grant date, or vest 25% on each anniversary or vest 0%, 50%, 25% and 25% on each anniversary of the grant date over four years. The fair value of each RSU is measured based on the market price of the stock on the grant date as AsiaInfo Holdings was still listed on NASDAQ. The Group also has the right at its sole discretion to pay cash in lieu of the issuance of vested shares of common stock.

The movements of RSUs under the 2011 Plan are summarized as follows:

|  | <u>Number of RSUs</u> | <u>Weighted average grant date fair value per RSU of the original awards (US\$)</u> |
|--|-----------------------|---|
| RSUs unvested as at January 1, 2015 .....        | 119,892               |   |
| Forfeited .....                                  | (19,867)              | 13.05   |
| Vested .....                                     | (88,688)              | 12.75   |
| Transfer out upon disposal of subsidiaries ..... | <u>(10,557)</u>       | 11.10   |
| RSUs unvested as at December 31, 2015 .....      | 780                   |   |
| Vested .....                                     | <u>(780)</u>          | 8.26  |
| RSUs unvested as at December 31, 2016 .....      | —                     |   |
| Granted .....                                    | 33,360                | 7.60  |
| Vested .....                                     | <u>(33,360)</u>       | 7.60  |
| RSUs unvested as at December 31, 2017 .....      | <u>—</u>              |   |

The Group recognized share-based compensation expenses of RMB9,262,000, nil and RMB1,686,000 in profit or loss and other comprehensive income during the years ended December 31, 2015, 2016 and 2017 in relation to the stock options and RSUs issued under the 2011 Plan.

2014 Plan

On June 1, 2015, the board of directors of Skipper Holdings, the ultimate controlling shareholder of the Company, approved the 2014 Plan with the purpose of enhancing the long-term stockholder value by offering employees and directors to participate in the Group’s growth and success and to encourage them to remain the service in the Group. The 2014 Plan is valid and effective for 10 years from the approval date. Under the 2014 Plan, Skipper Holdings is authorized to grant participants restricted stock awards, stock options, or other types of equity incentives with a total number of 14,733,653 ordinary shares of Skipper Holdings.

*Stock Options under the 2014 Plan*

Under the 2014 Plan, Skipper Holdings granted certain options to the directors of the Company and the employees of the Group on July 1, 2015. The stock options are valid and effective for 10 years

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. SHARE-BASED PAYMENTS—continued

2014 Plan—continued

*Stock Options under the 2014 Plan—continued*

from the approval date and have graded vesting terms of four years. The stock options are vested at 0%, 50%, 25% and 25% on each anniversary of the grant date over four years.

The movements of stock options under the 2014 Plan are summarized as follows:

|  | Number of<br>stock<br>options | Weighted average<br>exercise price<br>per option (US\$) |
|--|-------------------------------|---|
| Granted on July 1, 2015 .....                    | 6,118,200                     | 21.15   |
| Forfeited .....                                  | <u>(117,117)</u>              | 21.15   |
| Outstanding as at December 31, 2015 .....        | 6,001,083                     |   |
| Forfeited .....                                  | <u>(438,726)</u>              | 21.15   |
| Outstanding as at December 31, 2016 .....        | 5,562,357                     |   |
| Forfeited .....                                  | (1,037,484)                   | 15.38   |
| Exercised .....                                  | <u>(26,727)</u>               | 15.38   |
| Outstanding as at December 31, 2017 (note) ..... | <u>4,498,146</u>              |   |

Note: Upon the grant of the stock options, 1/3 of the options can be exercised at a price of US\$15.38, 1/3 of the options can be exercised at a price of US\$21.15 and the remaining 1/3 can be exercised at a price of \$26.92. On November 1, 2017, the Group modified the stock option by changing the exercise price to US\$15.38 for all stock options granted. Such modification resulted in an additional share-based compensation expenses of RMB4,384,000 for the year ended December 31, 2017.

*RSUs under the 2014 Plan*

Under the 2014 Plan, Skipper Holdings granted certain RSUs to the employees and executive officers. The RSUs are valid and effective for 10 years from the approval date and are vested at 0%, 50%, 25% and 25% on each anniversary of the grant date over four years.

The movements of RSUs issued under the 2014 Plan are summarized as follows:

|   | Number of RSUs   | Weighted average<br>grant date fair value<br>per RSU of the<br>original awards (US\$) |
|---|------------------|---|
| Granted on July 1, 2015 .....             | 974,445          | 6.83  |
| Forfeited .....                           | <u>(15,865)</u>  | 6.83  |
| Outstanding as at December 31, 2015 ..... | 958,580          |   |
| Granted .....                             | 147,325          | 7.2   |
| Forfeited .....                           | (65,828)         | 6.83  |
| Vested .....                              | <u>(147,325)</u> | 7.2   |
| Outstanding as at December 31, 2016 ..... | 892,752          |   |
| Granted .....                             | 589,544          | 7.6   |
| Forfeited .....                           | (155,257)        | 6.83  |
| Vested .....                              | <u>(589,544)</u> | 6.83  |
| Outstanding as at December 31, 2017 ..... | <u>737,495</u>   |   |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. SHARE-BASED PAYMENTS—continued

2014 Plan—continued

*Fair Value of Stock Options and RSUs under the 2014 Plan*

The Group has used the discounted cash flow method to determine the underlying ordinary share fair value of Skipper Holdings. Based on the fair value of the underlying ordinary shares, the Group has used binomial option-pricing model to determine the fair value of the stock option as of the grant date. Option valuation models require the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying share, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options.

|   | July 1, 2015 |          | March 21,<br>2016 | May 1, 2017 |         | November 1,<br>2017 | March 8,<br>2018 |
|---|--------------|----------|-------------------|-------------|---------|---------------------|------------------|
|   | Option       | RSU      | RSU               | Option      | RSU     | Option              | RSU              |
| Weighted average grant date fair value per option/RSU . . . . . | 1.55         | 6.83     | 7.20              | 4.43        | 7.60    | 1.34                | 9.10             |
| Grant date share price . . .                                    | 6.83         | 6.83     | 7.20              | 7.60        | 7.60    | 7.69                | 9.10             |
| Weighted average exercise price . . . . .                       | 21.15        | —        | —                 | 4.42        | —       | 15.38               | —                |
| Expected volatility . . . . .                                   | 50%          | 50%      | —                 | 40%         | —       | 49%                 | —                |
| Contractual life . . . . .                                      | 10 years     | 10 years | 10 years          | 7 years     | 7 years | 10 years            | 10 years         |
| Risk-free rate . . . . .  | 2.82%        | 2.82%    | —                 | 2.83%       | —       | 2.97%               | —                |
| Expected dividend yield . . . . .                               | 0%           | 0%       | 0%                | 0%          | 0%      | 0%                  | 0%               |

The Company recognized a total share-based compensation expenses of RMB16,477,000, RMB35,675,000 and RMB67,419,000 in profit or loss during the years ended December 31, 2015, 2016 and 2017, respectively, in relation to the stock options and RSUs issued under the 2014 Plan.

42. RETIREMENT BENEFIT SCHEME

As stipulated by the rules and regulations in the PRC, the Group contributes to state-managed retirement plans for its employees in the PRC. The Group is required to contribute a certain percentage of the basic salaries of its employees to the retirement plans, and has no further obligation for the actual payment of the previous or post-retirement benefits. The relevant state-managed retirement plans are responsible for the entire present obligation to retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of HK, the Group operates a Mandatory Provident Fund (“MPF”) scheme (“MPF Scheme”) for all qualifying HK employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme to employees and directors during the Track Record Period are disclosed in Note 11, Note 12 and Note 14.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties of the Group

The management of the Group considers that the following entities are related parties of the Group:

| <u>Name<sup>(i)</sup></u>  | <u>Relationship</u>                      |
|--|--|
| Skipper Holdings   | Immediate holding company of the Company |
| AsiaInfo Holdings  | Immediate holding company of the Company |
| AsiaInfo Cayman  | Entity controlled by Skipper Holdings    |
| AsiaInfo Chengdu   | Entity controlled by Skipper Holdings    |
| Beijing AsiaInfo Data Co., Ltd.                                  | Entity controlled by Skipper Holdings    |
| Beijing AsiaInfo Innovation Technologies Limited <sup>(ii)</sup> | Entity controlled by Skipper Holdings    |
| Nanjing AsiaInfo Network Technology Co., Ltd.                    | Entity controlled by Skipper Holdings    |
| Beijing Dataware   | A joint venture investment of the Group  |
| Bonson BVI   | Entity controlled by Skipper Holdings    |
| AsiaInfo Guangzhou Software                                      | Entity controlled by Skipper Holdings    |
| International HK   | Entity controlled by Skipper Holdings    |
| Beijing Xintong  | Entity controlled by Skipper Holdings    |
| Nanjing AsiaInfo Information Security Technology Co., Ltd.       | Entity controlled by Skipper Holdings    |
| AsiaInfo Software Limited  | Entity controlled by Skipper Holdings    |
| Skipper Parent (US), LLC   | Entity controlled by Skipper Holdings    |
| AsiaInfo International Pte. Ltd. Co., Ltd.                       | Entity controlled by Skipper Holdings    |
| AsiaInfo Software (Hong Kong) Co., Ltd.                          | Entity controlled by Skipper Holdings    |
| AsiaInfo Security (Hong Kong) Co., Ltd.                          | Entity controlled by Skipper Holdings    |
| AsiaInfo International US Corporation                            | Entity controlled by Skipper Holdings    |
| AsiaInfo Innovation Limited (“Innovation BVI”)                   | Entity controlled by Skipper Holdings    |
| Beijing AsiaInfo Voyager Consulting Co., Ltd.                    | Controlled by Dr. Suning Tian            |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd.                | Entity controlled by Skipper Holdings    |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd.               | Entity controlled by Skipper Holdings    |
| Big Data Wuhan   | A joint venture investment of the Group  |

*Note:*

- (i) The English name is for identification purpose only and the official names of the Companies are in Chinese.
- (ii) Beijing AsiaInfo Innovation Technologies Limited was disposed of during the year of 2017 and account for as a related party that controlled by the ultimate shareholder of the Group.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

(b) Amounts due from related parties

The following balances were the amounts due from related parties:

Amounts due from related parties—trade nature

|  | At December 31, |               |               |
|--|-----------------|---------------|---------------|
|  | 2015            | 2016          | 2017          |
|  | RMB’000         | RMB’000       | RMB’000       |
| Beijing Xintong .....                                  | 1,300           | 29,510        | 25,488        |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. .... | —               | 19,538        | 22,550        |
| Beijing AsiaInfo Data Co., Ltd. ....                   | —               | —             | 8,913         |
| Skipper Parent (US), LLC .....                         | —               | —             | 4,639         |
| Beijing Dataware .....                                 | —               | 11,349        | 1,693         |
| Skipper Holdings .....                                 | —               | —             | 1,006         |
| AsiaInfo Guangzhou Software .....                      | —               | —             | 926           |
| Nanjing AsiaInfo Network Technology Co., Ltd. ....     | 6               | 356           | 825           |
| AsiaInfo Software (Hong Kong) Co., Ltd. ....           | —               | —             | 131           |
| AsiaInfo International Co., Ltd. ....                  | 103             | 91            | 94            |
| Innovation BVI .....                                   | —               | —             | 22            |
| AsiaInfo Chengdu .....                                 | 56,027          | 33,047        | —             |
| Big Data Wuhan .....                                   | 14              | 1,854         | —             |
| AsiaInfo International US Corporation .....            | 3,249           | —             | —             |
|  | <u>60,699</u>   | <u>95,745</u> | <u>66,287</u> |

|                                    | At December 31, |               |               |
|------------------------------------|-----------------|---------------|---------------|
|                                    | 2015            | 2016          | 2017          |
|                                    | RMB’000         | RMB’000       | RMB’000       |
| Analyzed for reporting purpose as: |                 |               |               |
| Current assets .....               | 60,699          | 95,745        | 66,287        |
| Non-current assets .....           | —               | —             | —             |
|                                    | <u>60,699</u>   | <u>95,745</u> | <u>66,287</u> |

The Group generally grants a credit period of 30 days to its related parties. Aging of amounts due from related parties—trade nature, based on the dates when the Company has the rights to bill is set forth as follows:

|                     | At December 31, |               |               |
|---------------------|-----------------|---------------|---------------|
|                     | 2015            | 2016          | 2017          |
|                     | RMB’000         | RMB’000       | RMB’000       |
| 1-90 days .....     | 36,925          | 57,651        | 62,918        |
| 91-180 days .....   | 20,459          | 31,584        | 786           |
| 181-365 days .....  | 3,315           | 2,764         | 529           |
| Over 365 days ..... | —               | 3,746         | 2,054         |
|                     | <u>60,699</u>   | <u>95,745</u> | <u>66,287</u> |



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

(b) Amounts due from related parties—continued

Amounts due from related parties—trade nature—continued

Prepayment to related parties

|   | At December 31, |               |               |
|---|-----------------|---------------|---------------|
|   | 2015            | 2016          | 2017          |
|   | RMB’000         | RMB’000       | RMB’000       |
| AsiaInfo Chengdu .....                                  | 1,338           | 63,233        | 73,197        |
| AsiaInfo Guangzhuo Software .....                       | —               | —             | 6,030         |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd. .... | —               | —             | 4,839         |
| Beijing AsiaInfo Data Co., Ltd. ....                    | —               | —             | 3,174         |
| Beijing AsiaInfo Innovation Technologies Limited .....  | —               | —             | 725           |
| Total .....   | <u>1,338</u>    | <u>63,233</u> | <u>87,965</u> |

|                                    | At December 31, |               |               |
|------------------------------------|-----------------|---------------|---------------|
|                                    | 2015            | 2016          | 2017          |
|                                    | RMB’000         | RMB’000       | RMB’000       |
| Analyzed for reporting purpose as: |                 |               |               |
| Current assets .....               | 1,338           | 63,233        | 87,965        |
| Non-current assets .....           | —               | —             | —             |
|                                    | <u>1,338</u>    | <u>63,233</u> | <u>87,965</u> |

Amounts due from related parties—non-trade nature

|  | At December 31, |                |                |
|--|-----------------|----------------|----------------|
|  | 2015            | 2016           | 2017           |
|  | RMB’000         | RMB’000        | RMB’000        |
| AsiaInfo Holdings .....  | 71,960          | 597,235        | 614,150        |
| Beijing AsiaInfo Voyager Consulting Co., Ltd. ....                     | —               | —              | 50,000         |
| AsiaInfo Cayman .....  | —               | 37,498         | 37,559         |
| Bonson BVI .....   | 23,004          | 24,575         | 23,339         |
| International HK .....   | —               | 6,696          | 6,484          |
| AsiaInfo International US Corporation .....                            | —               | 3,469          | 3,267          |
| AsiaInfo Security (Hong Kong) Co., Ltd. ....                           | 325             | 347            | 327            |
| Nanjing AsiaInfo Information Security Technology Ltd. (note d(v)) .... | 80,599          | 44,123         | —              |
|  | <u>175,888</u>  | <u>713,943</u> | <u>735,126</u> |

Note: The balances, except for certain related party borrowings, are unsecured, interest-free and repayable on demand.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

(b) Amounts due from related parties—continued

Amounts due from related parties—non-trade nature—continued

Maximum amount outstanding during the year are as follows:

|   | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2015                    | 2016           | 2017           |
|   | RMB’000                 | RMB’000        | RMB’000        |
| AsiaInfo Holdings   | 71,960                  | 597,235        | 647,762        |
| Beijing AsiaInfo Voyager Consulting Co., Ltd.                     | —                       | —              | 50,000         |
| AsiaInfo Cayman   | 293,693                 | 37,498         | 37,559         |
| Bonson BVI  | 23,004                  | 24,575         | 24,575         |
| International HK  | —                       | 6,696          | 6,696          |
| Nanjing AsiaInfo Information Security Technology Ltd. (note d(v)) | 80,599                  | 84,123         | 44,123         |
| AsiaInfo International US Corporation                             | —                       | 3,469          | 3,469          |
| AsiaInfo Security (Hong Kong) Co., Ltd.                           | 325                     | 347            | 347            |
| AsiaInfo Chengdu  | 45,000                  | —              | —              |
|   | <u>514,581</u>          | <u>753,943</u> | <u>814,531</u> |

|                                    | At December 31, |                |                |
|------------------------------------|-----------------|----------------|----------------|
|                                    | 2015            | 2016           | 2017           |
|                                    | RMB’000         | RMB’000        | RMB’000        |
| Analyzed for reporting purpose as: |                 |                |                |
| Current assets                     | 80,924          | 48,010         | 97,637         |
| Non-current assets                 | 94,964          | 665,933        | 637,489        |
|                                    | <u>175,888</u>  | <u>713,943</u> | <u>735,126</u> |

(c) Amounts due to related parties

The following balances were the amounts due to related parties:

Amounts due to related parties—trade nature

|  | At December 31, |                |                |
|--|-----------------|----------------|----------------|
|  | 2015            | 2016           | 2017           |
|  | RMB’000         | RMB’000        | RMB’000        |
| AsiaInfo Chengdu                                   | 115,727         | 204,195        | 135,013        |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd.  | —               | 20,709         | 18,427         |
| Beijing AsiaInfo Data Co., Ltd.                    | —               | —              | 14,623         |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd. | —               | —              | 6,429          |
| Bonson BVI   | —               | —              | 6,088          |
| AsiaInfo Software Limited                          | —               | —              | 5,930          |
| Beijing AsiaInfo Innovation Technologies Limited   | —               | —              | 5,121          |
| Beijing Dataware                                   | —               | 2,482          | 861            |
| International HK                                   | 70,117          | —              | 20             |
| AsiaInfo International Co., Ltd.                   | 14              | —              | —              |
|  | <u>185,858</u>  | <u>227,386</u> | <u>192,512</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

(c) Amounts due to related parties—continued

Amounts due to related parties—trade nature—continued

|                                    | At December 31, |                |                |
|------------------------------------|-----------------|----------------|----------------|
|                                    | 2015            | 2016           | 2017           |
|                                    | RMB’000         | RMB’000        | RMB’000        |
| Analyzed for reporting purpose as: |                 |                |                |
| Current liabilities .....          | 185,858         | 227,386        | 192,512        |
| Non-current liabilities .....      | —               | —              | —              |
|                                    | <u>185,858</u>  | <u>227,386</u> | <u>192,512</u> |

The average credit period granted by the related parties is 90 days for accrued expenses. Aging of amounts due to related parties—trade nature are as follows:

|                     | At December 31, |                |                |
|---------------------|-----------------|----------------|----------------|
|                     | 2015            | 2016           | 2017           |
|                     | RMB’000         | RMB’000        | RMB’000        |
| 1-90 days .....     | 185,858         | 157,231        | 142,778        |
| 91-180 days .....   | —               | 48,539         | 26,752         |
| 181-365 days .....  | —               | 17,249         | —              |
| Over 365 days ..... | —               | 4,367          | 22,982         |
|                     | <u>185,858</u>  | <u>227,386</u> | <u>192,512</u> |

Amounts due to related parties—non-trade nature

|  | At December 31, |               |               |
|--|-----------------|---------------|---------------|
|  | 2015            | 2016          | 2017          |
|  | RMB’000         | RMB’000       | RMB’000       |
| AsiaInfo Guangzhou Software .....                  | —               | —             | 14,695        |
| AsiaInfo Cayman .....                              | 12,763          | 6,905         | 7,831         |
| Skipper Parent (US), LLC .....                     | —               | 5,134         | —             |
| Nanjing AsiaInfo Network Technology Co., Ltd. .... | 764             | 466           | 329           |
| AsiaInfo Holdings .....                            | —               | —             | —             |
| Beijing Xintong .....                              | 79,019          | —             | —             |
| International HK .....                             | —               | 58,437        | —             |
|  | <u>92,546</u>   | <u>70,942</u> | <u>22,855</u> |

|                                    | At December 31, |               |               |
|------------------------------------|-----------------|---------------|---------------|
|                                    | 2015            | 2016          | 2017          |
|                                    | RMB’000         | RMB’000       | RMB’000       |
| Analyzed for reporting purpose as: |                 |               |               |
| Current liabilities .....          | 92,546          | 70,942        | 8,160         |
| Non-current liabilities .....      | —               | —             | 14,695        |
|                                    | <u>92,546</u>   | <u>70,942</u> | <u>22,855</u> |

(d) Borrowings within related parties during the Track Record Period are listed out below:

(i) On July 10, 2015, AsiaInfo Technology HK and a related party, AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo Technology HK agreed to

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**43. RELATED PARTY BALANCES AND TRANSACTIONS—continued**

- (d) Borrowings within related parties during the Track Record Period are listed out below:—  
continued

- provide a revolving facility to AsiaInfo Cayman up to US\$50,000,000. US\$20,000,000 (equivalent to RMB122,344,000) was drawn on July 13, 2015. The amounts due from AsiaInfo Cayman were unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was fully settled as at December 31, 2015.
- (ii) On May 18, 2015, AsiaInfo (H.K.) Limited and AsiaInfo Cayman, entered into a borrowing agreement where AsiaInfo (H.K.) Limited agreed to provide a revolving facility up to US\$58,910,000. A borrowing was drawn on May 19, 2015, amounting to US\$22,182,000 (equivalent to RMB144,043,000). On December 30, 2015, another agreements were entered into between AsiaInfo Technologies HK, AsiaInfo Holdings, AsiaInfo (H.K.) Limited and AsiaInfo Cayman where AsiaInfo Cayman transferred the loan owed to AsiaInfo (H.K.) Limited to AsiaInfo Holdings, and AsiaInfo Holdings (H.K.) limited transferred the rights to receive to AsiaInfo Technologies HK. The loan was unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was outstanding during the Track Record Period.
- (iii) On May 5, 2015, AsiaInfo Technology HK and a related party, AsiaInfo Cayman, entered into a borrowing agreement where Hong Kong AsiaInfo Technologies agreed to provide a revolving facility up to US\$6,000,000. A full amount of US\$6,000,000 was drawn on May 6, 2015. The loan was unsecured, interest bearing at 1.53% per annum and repayable on demand. The amount was settled by non-cash transactions as at December 31, 2015.
- (iv) On September 1, 2015, AsiaInfo Technology HK and a related party, AsiaInfo Holdings, entered into a borrowing agreement where AsiaInfo Technology HK agreed to provide a revolving facility up to US\$25,700,000. Two borrowings were drawn in 2016 and 2017 in an amount of US\$15,700,000 (equivalent to RMB108,910,900) and US\$10,000,000 (equivalent to RMB65,342,000), respectively. The loan was unsecured, interest free and repayable on demand. The amount was outstanding during the Track Record Period.
- (v) On October 31, 2015, AsiaInfo Nanjing and a related party, Nanjing AsiaInfo Information Safe Technology Ltd., entered into a borrowing agreement where AsiaInfo Nanjing agreed to lend RMB80,000,000 to Nanjing AsiaInfo Information Security Technologies Ltd. for its daily operation. The loan was unsecured with an interest rate of 4.35% per annum and repayable on demand. RMB40,000,000 was repaid on December 29, 2016 and the outstanding amount was RMB40,000,000 as at December 31, 2016. Subsequently the outstanding balance was fully repaid in 2017.
- (vi) On August 11, 2015, AsiaInfo Holdings entered into an facility agreement with Bank of China, Macau Branch, pursuant to which AsiaInfo Holdings borrowed a term loan of US\$200,000,000. On December 30, 2015, AsiaInfo Holdings entered into an amendment and novation deed with AsiaInfo Technologies HK, pursuant to which

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

- (d) Borrowings within related parties during the Track Record Period are listed out below:—  
continued

AsiaInfo Holdings transferred all of its rights and obligations under the original facility agreement in connection with the entire unpaid principal amount of the outstanding loan US\$191,445,000 and accrued interest of US\$825,313 as at December 30, 2015 to AsiaInfo Technologies HK (the “Debt Push-down”). The amount due from AsiaInfo Holdings was partially offset by the dividend payment in an aggregate amount of US\$140,000,000 (equivalent to RMB909,104,000) declared by AsiaInfo Technologies HK, and the remaining amounts were unsecured, interest bearing at 3.2% per annum plus the London Interbank Offered Rate (“LIBOR”), and repayable on demand. The amount was substantially settled by dividend distribution of US\$140,000,000 (equivalent to RMB909,104,000) in December 2015. The remaining balance was outstanding during the Track Record Period.

- (vii) On November 2, 2015, Beijing Xintong and AsiaInfo Chengdu entered into a related party borrowing agreement, pursuant to which AsiaInfo Chengdu borrowed RMB45,000,000 from Beijing Xintong with an annual interest rate of 4.35%.
- (viii) On April 28, 2016, Beijing AsiaInfo Big Data entered into a borrowing agreement with a related party, Beijing Xintong, pursuant to which Beijing AsiaInfo Big Data agreed to borrow RMB19,500,000 from the Lender. The loan to Beijing Xintong was unsecured, interest bearing at 4.35% per annum and repayable on demand. The balance of amount due from was fully repaid on September 30, 2016.

Another borrowing agreement was entered into between Beijing Xintong and Beijing AsiaInfo Big Data on May 4, 2017, pursuant to which Beijing Xintong agreed to lend RMB10,000,000 to Beijing AsiaInfo Big Data at an annual rate of 4.35%.

- (ix) On June 14, 2016, AsiaInfo Technologies HK entered into a borrowing agreement with a related party, International HK, pursuant to which International HK agreed to make available a revolving facility, up to US\$60,000,000. A borrowing was drawn on June 16, 2016, amounting to US\$45,000,000 (equivalent to RMB298,404,000). The loan from International HK was unsecured, interest bearing at a three-month LIBOR rate plus 100bps and repayable on demand. The amount was partially repaid of US\$12,000,000 (equivalent to RMB81,169,200) and US\$25,000,000 (equivalent to RMB173,425,000) on October 26, 2016 and December 30, 2016, respectively. The remaining amount due to International HK was outstanding as at December 31, 2016 and was fully repaid in March 2017.
- (x) On July 31, 2016, AsiaInfo Nanjing and a related party, Beijing Xintong, entered into a borrowing agreement, pursuant to which AsiaInfo Nanjing agreed to lend RMB24,000,000 to the borrower. The amounts due from Beijing Xintong were unsecured, interest bearing at 4.35% per annum and repayable on demand. The amount was outstanding during the Track Record Period.
- (xi) On April 5, 2017 and May 31, 2017, AsiaInfo China and Beijing Dataware, a related party, entered into two separated related party borrowing agreements, pursuant to which Beijing Dataware borrowed RMB6,500,000 and RMB6,400,000 from

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

- (d) Borrowings within related parties during the Track Record Period are listed out below:—  
continued

AsiaInfo China, respectively, both of which carried an annual interest rate at 4.35%.  
The loans were fully repaid on December 6, 2017.

Interests were accrued and expenses were charged to the Group until October 2017 upon the sale of Beijing AsiaInfo Big Data to Guangzhou AsiaInfo Cloud Co., Ltd. (Note 12) as a part of the discontinued operations.

- (e) The significant transactions with related parties during the Track Record Period are listed out below.

During the Track Record Period, the Group had the following major transactions with related companies, other than those disclosed elsewhere in the combined financial statements:

|   | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2015                    | 2016          | 2017          |
|   | RMB’000                 | RMB’000       | RMB’000       |
| Sales of property, plant and equipment to:  |                         |               |               |
| Nanjing AsiaInfo Network Technology Co., Ltd. . . . .                               | 696                     | —             | —             |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .                           | —                       | 1,523         | —             |
| Beijing Dataware . . . . .  | —                       | 351           | —             |
|   | <u>696</u>              | <u>1,874</u>  | <u>—</u>      |
| Purchase of property, plant and equipment from:                                     |                         |               |               |
| AsiaInfo Guangzhou Software . . . . .   | —                       | —             | 319           |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .                           | —                       | —             | 327           |
| Beijing Dataware . . . . .  | —                       | —             | 206           |
|   | <u>—</u>                | <u>—</u>      | <u>852</u>    |
| Interest expenses charged by:   |                         |               |               |
| International HK (note d(ix)) . . . . .   | —                       | 2,818         | 261           |
| Beijing Xintong (note d(xi)) . . . . .  | —                       | 368           | 219           |
|   | <u>—</u>                | <u>3,186</u>  | <u>480</u>    |
| Interest income generated from:   |                         |               |               |
| AsiaInfo Holdings (note d(ii), d(iv), d(vi)) . . . . .                              | 241                     | 15,690        | 15,672        |
| Nanjing AsiaInfo Information Security Technology Co., Ltd.<br>(note d(v)) . . . . . | 599                     | 3,524         | 1,188         |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .                           | —                       | —             | 749           |
| Beijing Xintong (note d(x)) . . . . .   | —                       | 435           | 1,053         |
| Beijing Dataware (note d(xi)) . . . . .   | —                       | —             | 339           |
| AsiaInfo Cayman (note d(i), d(iii)) . . . . .                                       | 2,420                   | —             | —             |
| AsiaInfo Chengdu (note d(vii)) . . . . .  | 326                     | —             | —             |
|   | <u>3,586</u>            | <u>19,649</u> | <u>19,001</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

(e) The significant transactions with related parties during the Track Record Period are listed out below.—continued

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2015                    | 2016           | 2017           |
|  | RMB’000                 | RMB’000        | RMB’000        |
| Network security outsourcing services:                     |                         |                |                |
| AsiaInfo Chengdu .....                                     | 73,035                  | 334,472        | 120,976        |
|  | <u>73,035</u>           | <u>334,472</u> | <u>120,976</u> |
| Technological support services charged by:                 |                         |                |                |
| AsiaInfo Chengdu .....                                     | 14,721                  | 36,079         | 20,310         |
| Beijing AsiaInfo Data Co., Ltd. ....                       | —                       | —              | 2,038          |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....     | —                       | 60,429         | 2,193          |
| Beijing AsiaInfo Innovation Technologies Limited .....     | —                       | —              | 182            |
| Beijing Dataware .....                                     | —                       | 2,342          | 495            |
| Nanjing AsiaInfo Network Technology Co., Ltd. ....         | —                       | 425            | —              |
|  | <u>14,721</u>           | <u>99,275</u>  | <u>25,218</u>  |
|  | <u>87,756</u>           | <u>433,747</u> | <u>146,194</u> |
| Subcontract cost from discontinuing operations charged by: |                         |                |                |
| Beijing AsiaInfo Innovation Technologies Limited .....     | —                       | —              | 1,209          |
| Beijing AsiaInfo Data Co., Ltd. ....                       | —                       | —              | 555            |
| Nanjing AsiaInfo Network Technology Co., Ltd. ....         | 420                     | 440            | —              |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....     | —                       | 22,423         | —              |
|  | <u>420</u>              | <u>22,863</u>  | <u>1,764</u>   |
| Technological support services provided to:                |                         |                |                |
| AsiaInfo Chengdu .....                                     | 10,984                  | 1,165          | 287            |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....     | —                       | 341            | 2,497          |
| Beijing Xintong .....                                      | —                       | 19,075         | —              |
|  | <u>10,984</u>           | <u>20,581</u>  | <u>2,784</u>   |
| Office rental provided to:                                 |                         |                |                |
| AsiaInfo Chengdu .....                                     | 1,382                   | 5,528          | 3,442          |
| Beijing Dataware .....                                     | —                       | 1,346          | 945            |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....     | —                       | —              | 433            |
|  | <u>1,382</u>            | <u>6,874</u>   | <u>4,820</u>   |
| Management support services provided to:                   |                         |                |                |
| AsiaInfo Chengdu .....                                     | 11,474                  | 43,947         | 17,494         |
| Beijing Dataware .....                                     | —                       | 8,234          | —              |
| Beijing AsiaInfo Data Co., Ltd. ....                       | —                       | —              | 111            |
| International HK .....                                     | —                       | —              | 5,267          |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....     | —                       | —              | 6,307          |
|  | <u>11,474</u>           | <u>52,181</u>  | <u>29,179</u>  |



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

43. RELATED PARTY BALANCES AND TRANSACTIONS—continued

(f) Compensation of key management personnel

The remuneration of key management personnel which represents the directors of the Company and key executives of the Group during the years ended December 31, 2015, 2016 and 2017 is as follows:

|  | Year ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2015                    | 2016          | 2017          |
|  | RMB’000                 | RMB’000       | RMB’000       |
| Salaries and other benefits .....                | 6,030                   | 6,605         | 5,597         |
| Discretionary bonus .....                        | 10,154                  | 5,787         | 13,957        |
| Contributions to retirement benefit scheme ..... | 212                     | 270           | 230           |
| Share-based compensation expenses .....          | 4,469                   | 11,058        | 34,341        |
| Total emoluments .....                           | <u>20,865</u>           | <u>23,720</u> | <u>54,125</u> |

The remuneration of the directors of the Company and key executives of the Group is determined having regard to the performance of individuals and market trends.

Saved as disclosed above, there were no other significant transactions with related parties during the Track Record Period or other significant balances with them at the end of each year of the Track Record Period.

44. DISPOSAL OF SUBSIDIARIES

On the following respective dates, the Group entered into transfer agreements with either independent third parties or related parties under common control of the ultimate shareholder of the Group. The management of the Group considered that it was beneficial to enter into the disposals since these subsidiaries were not related to the principal activities of the Group and were in accordance with the Group’s ongoing business strategy, which is mainly to discontinue the International Business and the E-public Service Business.

In October 2015, the Group disposed of a wholly-owned subsidiary, AsiaInfo Chengdu to a related party controlled by the ultimate shareholder, for a consideration of RMB80,000,000.

On November 27, 2015, as part of the discontinued operations, AsiaInfo Technologies HK transferred 40,190,982 ordinary shares of AsiaInfo International Pte. Ltd. (“AsiaInfo Singapore”) to International HK, an indirect wholly-owned subsidiary of AsiaInfo Cayman, representing 100% of the issued share capital of AsiaInfo Singapore, and 1 ordinary share of AsiaInfo (Thailand) Limited (“AsiaInfo Thailand”), representing 0.0025% of the issued share capital of AsiaInfo Thailand to the Group’s fellow subsidiaries. The consideration for the disposal of equity interest in AsiaInfo Singapore and AsiaInfo Thailand was US\$39,000,000 and Thai Baht100, respectively (aggregately equivalent to RMB253,250,000), the considerations of which were fully settled by International HK on November 27, 2015.

On December 28, 2015, the shareholders of AsiaInfo Technologies HK passed a resolution approving the declaration of a special dividend by way of distribution all of the ordinary shares, to AsiaInfo Holdings, the sole shareholder of AsiaInfo Technologies HK, which offsets the transfer of

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**44. DISPOSAL OF SUBSIDIARIES—continued**

investment in Bonson BVI, a subsidiary of the Group and was disposed of in 2015. The consideration for the disposal of equity interest in Boson BVI was US\$28,858,324 (equivalent to RMB185,989,000), being accounted for a major non-cash transaction during the Track Record Period (Note 45).

On April 19, 2016, the Group disposed of a wholly-owned subsidiary, AsiaInfo Nanjing Internet, to a third-party company, for a consideration of RMB107,498,000.

On May 30, 2016, as part of the disposal of the International Business, the Group disposed of a wholly-owned subsidiary, AsiaInfo UK, altogether with its wholly-owned subsidiaries, AsiaInfo Denmark ApS and AsiaInfo (Hungary) Kft., to a related party controlled by the ultimate holding company for a consideration of RMB13,140,000.

On September 21, 2017, the Group disposed of its 88% owned subsidiaries, including Software BVI, AsiaInfo Software (H.K.) Limited (“Software HK”) and AsiaInfo Guangzhou Software, to a related party, Innovation BVI, for a consideration of RMB22,000.

On November 3, 2017, as part of the discontinued operations, the Group disposed of a wholly-owned subsidiary, Beijing AsiaInfo Century Big Data Co., Ltd. (“Century Big Data”), along with its subsidiaries, to a third-party company for a consideration of nil.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

44. DISPOSAL OF SUBSIDIARIES—continued

For the year ended December 31, 2015, 2016 and 2017

The aggregate amounts of the assets and liabilities attributable to the subsidiaries on the dates of disposal were as follows:

|   | 2015                                 |  |                                 |                |
|---|--------------------------------------|--|---------------------------------|----------------|
|   | AsiaInfo Chengdu at October 30, 2015 | AsiaInfo Singapore, AsiaInfo Thailand and their subsidiaries at October 25, 2015 | Bonson BVI at December 28, 2015 | Total          |
|   | RMB’000                              | RMB’000  | RMB’000                         | RMB’000        |
| Property, plant and equipment . . . . .   | 1,613                                | 922  | —                               | 2,535          |
| Amounts due from immediate holding company . . . . .                                  | —                                    | —  | 29,221                          | 29,221         |
| Other non-current receivables . . . . .   | 1,140                                | —  | —                               | 1,140          |
| Inventories . . . . .   | 490                                  | —  | —                               | 490            |
| Trade and notes receivables . . . . .   | 88,557                               | 1,846  | —                               | 90,403         |
| Prepayments, deposits and other receivables . . .                                     | 49,441                               | 64,072   | 168,354                         | 281,867        |
| Contract assets . . . . .   | 75,157                               | 102  | —                               | 75,259         |
| Bank balances and cash . . . . .  | 38,433                               | 21,218   | 13,556                          | 73,207         |
| Trade and notes payables . . . . .  | (22,872)                             | —  | —                               | (22,872)       |
| Contract liabilities . . . . .  | (45,880)                             | (4,835)  | —                               | (50,715)       |
| Other payables, deposits received and accrued expenses . . . . .                      | (38,648)                             | (91,002)   | (40,166)                        | (169,816)      |
| Net assets (liabilities) disposed of . . . . .  | <u>147,431</u>                       | <u>(7,677)</u>   | <u>170,965</u>                  | <u>310,719</u> |
| Consideration . . . . .   | 80,000                               | 253,250  | 185,989                         | 519,239        |
| Net (assets) liabilities disposed of . . . . .  | (147,431)                            | 7,677  | (170,965)                       | (310,719)      |
| Cumulative exchange difference reclassified to profit or loss upon disposal . . . . . | —                                    | (2,899)  | 13,363                          | 10,464         |
| (Loss) gain on disposal . . . . .   | <u>(67,431)</u>                      | <u>258,028</u>   | <u>28,387</u>                   | <u>218,984</u> |
| Satisfied by:   |                                      |  |                                 |                |
| Dividend distribution . . . . .   | —                                    | 253,250  | 185,989                         | 439,239        |
| Cash . . . . .  | 80,000                               | —  | —                               | 80,000         |
|   | <u>80,000</u>                        | <u>253,250</u>   | <u>185,989</u>                  | <u>519,239</u> |
| Net cash (outflow) inflow arising on disposal of subsidiaries:                        |                                      |  |                                 |                |
| Cash consideration received . . . . .   | 80,000                               | —  | —                               | 80,000         |
| Bank balances and cash disposed of . . . . .  | (38,433)                             | (21,218)   | (13,556)                        | (73,207)       |
|   | <u>41,567</u>                        | <u>(21,218)</u>  | <u>(13,556)</u>                 | <u>6,793</u>   |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

44. DISPOSAL OF SUBSIDIARIES—continued

For the year ended December 31, 2015, 2016 and 2017—continued

|  | 2016   |  |                 |
|--|--|--|-----------------|
|  | AsiaInfo Nanjing<br>Internet at<br>March 1, 2016 | AsiaInfo UK and<br>its subsidiaries at<br>May 16, 2016 | Total           |
|  | RMB’000  | RMB’000  | RMB’000         |
| Property, plant and equipment . . . . .  | 614  | 82   | 696             |
| Prepaid lease payments . . . . .   | 56,920   | —  | 56,920          |
| Prepayments, deposits and other receivables . . . . .                                    | —  | 159,666  | 159,666         |
| Bank balances and cash . . . . .   | 1,201  | 45,231   | 46,432          |
| Trade and notes payables . . . . .   | —  | (4,827)  | (4,827)         |
| Other payables, deposits received and accrued expenses . . . . .                         | —  | (164,500)  | (164,500)       |
| Net assets disposed of . . . . .   | <u>58,735</u>                                    | <u>35,652</u>  | <u>94,387</u>   |
| Consideration . . . . .  | 107,498  | 13,140   | 120,638         |
| Net assets disposed of . . . . .   | (58,735)   | (35,652)   | (94,387)        |
| Cumulative exchange difference reclassified to profit or loss<br>upon disposal . . . . . | —  | (11,594)   | (11,594)        |
| Gain (loss) on disposal . . . . .  | <u>48,763</u>                                    | <u>(34,106)</u>  | <u>14,657</u>   |
| Satisfied by:  |  |  |                 |
| Cash . . . . .   | 70,000   | —  | 70,000          |
| Amounts due from/to related parties . . . . .  | <u>37,498</u>                                    | <u>13,140</u>  | <u>50,638</u>   |
|  | <u>107,498</u>                                   | <u>13,140</u>  | <u>120,638</u>  |
| Net cash (outflow) inflow arising on disposal of subsidiaries:                           |  |  |                 |
| Cash consideration received . . . . .  | 70,000   | —  | 70,000          |
| Bank balances and cash disposed of . . . . .   | <u>(1,201)</u>                                   | <u>(45,231)</u>  | <u>(46,432)</u> |
|  | <u>68,799</u>                                    | <u>(45,231)</u>  | <u>23,568</u>   |

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

44. DISPOSAL OF SUBSIDIARIES—continued

For the year ended December 31, 2015, 2016 and 2017—continued

|  | 2017  |   |                 |
|--|---|---|-----------------|
|  | Software BVI,<br>Software HK and<br>AsiaInfo<br>Guangzhou<br>Software at<br>September 21,<br>2017 | Century Big<br>Data at<br>November 3,<br>2017 | Total           |
|  | RMB’000   | RMB’000                                       | RMB’000         |
| Property, plant and equipment  | 4,828   | 4,550   | 9,378           |
| Investments in associates  | —   | 2,159   | 2,159           |
| Investments in joint ventures  | —   | 9,648   | 9,648           |
| Amounts due from associate   | —   | 4,820   | 4,820           |
| Inventories  | —   | 88  | 88              |
| Trade and notes receivables  | 6,770   | 9,722   | 16,492          |
| Prepayments, deposits and other receivables                                  | 25,664  | 19,109  | 44,773          |
| Contract assets  | 6,732   | 59,495  | 66,227          |
| Bank balances and cash   | 2,638   | 29,977  | 32,615          |
| Trade and notes payables   | (2,228)   | (23,602)                                      | (25,830)        |
| Contract liabilities   | (3,986)   | (10,382)                                      | (14,368)        |
| Other payables, deposits received and accrued expenses                       | (80,166)  | (126,900)                                     | (207,066)       |
| Income tax payable   | (20,872)  | (1,031)                                       | (21,903)        |
| Other non-current liabilities  | —   | (11,958)                                      | (11,958)        |
| Non-controlling interest   | 7,274   | (2,892)                                       | 4,382           |
| Net liabilities disposed of  | <u>(53,346)</u>   | <u>(37,197)</u>                               | <u>(90,543)</u> |
| Consideration  | 22  | —   | 22              |
| Net liabilities disposed of  | 53,346  | 37,197  | 90,543          |
| Cumulative exchange differences reclassified to profit or loss upon disposal | 450   | —   | 450             |
| Gain on disposal   | <u>53,818</u>   | <u>37,197</u>                                 | <u>91,015</u>   |
| Satisfied by:  |   |   |                 |
| Cash   | <u>22</u>   | <u>—</u>                                      | <u>22</u>       |
| Net outflow arising on disposal of subsidiaries:                             |   |   |                 |
| Cash consideration received  | —   | —   | —               |
| Bank balances and cash disposed of   | <u>(2,638)</u>  | <u>(29,977)</u>                               | <u>(32,615)</u> |
|  | <u>(2,638)</u>  | <u>(29,977)</u>                               | <u>(32,615)</u> |

*Gains (losses) on disposal of subsidiaries*

|  | Year ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2015                    | 2016          | 2017          |
|  | RMB’000                 | RMB’000       | RMB’000       |
| Gains (losses) on disposal of subsidiaries <sup>(i)</sup>    |                         |               |               |
| —recognized in equity  | 208,520                 | (22,512)      | 53,368        |
| —recognized in profit or loss and other comprehensive income | 10,464                  | 37,169        | 37,647        |
|  | <u>218,984</u>          | <u>14,657</u> | <u>91,015</u> |

*Note:*

- (i) The entire equity interests that the Group held in AsiaInfo Nanjing Internet and Century Big Data were disposed of, in 2016 and 2017, respectively, to two independent third-party companies on which the gain were recognized in the combined statements of profit or loss from continuing operations and discontinued operations, respectively. The remaining disposal of subsidiaries were all disposed of to the companies under common control of the ultimate holding company of the Group, on which the gains (losses) were recognized in the statements of changes in equity.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

45. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2015, dividend amounting to US\$28,858,324 (equivalent to RMB185,989,000) declared by AsiaInfo Technologies HK was settled by offsetting the transfer of the investment in Bonson BVI (Note 37) and dividend amounting to US\$140,000,000 (equivalent to RMB902,286,000) was settled by offsetting the Debt Push-down relating to bank borrowings as disclosed in Note 43; the declared dividend was further offset by the balance of the amount due from AsiaInfo Holdings, amounting to US\$14,806,000 (equivalent to RMB97,164,000).

46. OPERATING LEASES COMMITMENTS

At the end of each year of Track Record Period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|  | At December 31, |                |                |
|--|-----------------|----------------|----------------|
|  | 2015            | 2016           | 2017           |
|  | RMB’000         | RMB’000        | RMB’000        |
| Within one year . . . . .                            | 41,013          | 47,970         | 59,772         |
| In the second to the fifth year, inclusive . . . . . | 104,385         | 232,285        | 270,880        |
| Over five years . . . . .                            | 414             | 106,221        | 46,472         |
|  | <u>145,812</u>  | <u>386,476</u> | <u>377,124</u> |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms ranging from one year to five years for the Group and rentals are normally fixed during the lease periods.

The Company did not have any lease commitment receivable at the end of each reporting period.

47. CAPITAL COMMITMENTS

|   | At December 31, |              |               |
|---|-----------------|--------------|---------------|
|   | 2015            | 2016         | 2017          |
|   | RMB’000         | RMB’000      | RMB’000       |
| Capital expenditure contracted for but not provided in the combined financial statements in respect of acquisition of property, plant and equipment . . . . . | <u>11,504</u>   | <u>3,327</u> | <u>17,860</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

48. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Company has direct and indirect shareholders/equity interest in the following subsidiaries:

| Name of subsidiary <sup>(a)</sup>  | Place and date of establishment | Issue and fully paid ordinary share capital/registered capital | Proportion of interest attributable to the Company |            |          |            |          |            |                            |            | Principal activities            |
|--|---------------------------------|--|--|------------|----------|------------|----------|------------|----------------------------|------------|---------------------------------|
|  |                                 |  | 2015   |            | 2016     |            | 2017     |            | At the date of this report |            |                                 |
|  |                                 |  | Directly   | Indirectly | Directly | Indirectly | Directly | Indirectly | Directly                   | Indirectly |                                 |
| AsiaInfo China 亞信科技(中國)有限公司<br>(Previously known as AsiaInfo-Linkage Technologies (China), Inc. 亞信聯創科技(中國)有限公司) (“AsiaInfo China”)   | The PRC<br>May 2, 1995          | US\$26,040,570   | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| AsiaInfo Nanjing 亞信科技(南京)有限公司<br>(Previously known as Linkage AsiaInfo Technologies (Nanjing), Inc. 聯創亞信科技(南京)有限公司)  | The PRC<br>February 16, 2004    | US\$11,000,000   | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Shanghai AsiaInfo Online Technology Limited. <sup>(b)</sup> 上海亞信在線科技有限公司<br>(Previously known as Shanghai Xinjia Information Technology Co., Ltd. 上海信迦信息科技有限公司) (“Shanghai AsiaInfo Online”) | The PRC<br>September 25, 2008   | RMB20,000,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Hangzhou AsiaInfo Cloud Information Technologies Limited 杭州亞信雲信息科技有限公司<br>(Previously known as Hangzhou Zhongbo Software Technology Co., Ltd 杭州中博軟件技術有限公司) (“AsiaInfo Hangzhou Cloud”)       | The PRC<br>February 25, 2007    | RMB10,000,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Beijing Naomi Technology Co., Ltd. (“Naomi”) <sup>(c)</sup> 北京鬧米科技有限公司   | The PRC<br>May 25, 2012         | RMB5,000,000   | —  | 66.67%     | —        | —          | —        | —          | —                          | —          | Provision of software solutions |
| AsiaInfo (Guangzhou) Software Service Ltd. 亞信(廣州)軟件服務有限公司<br>(“AsiaInfo Guangzhou Software”) <sup>(d)</sup>  | The PRC<br>March 6, 2015        | RMB50,000,000  | —  | 88%        | —        | 88%        | —        | —          | —                          | —          | Provision of software solutions |
| Nanjing AsiaInfo Software Co., Ltd 南京亞信軟件有限公司  | The PRC<br>February 6, 2015     | RMB30,000,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Hunan AsiaInfo Software Co., Ltd 湖南亞信軟件有限公司  | The PRC<br>April 16, 2015       | RMB30,000,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Hangzhou AsiaInfo Software Co., Ltd 杭州亞信軟件有限公司   | The PRC<br>May 15, 2015         | RMB50,000,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Guangzhou AsiaInfo Technology Co., Ltd 廣州亞信技術有限公司  | The PRC<br>Aug 11, 2017         | RMB200,000,000   | —  | —          | —        | —          | —        | 100%       | —                          | 100%       | Provision of software solutions |
| Nanjing AsiaInfo Internet <sup>(e)</sup> 南京亞信互聯網科技有限公司   | The PRC<br>June 9, 2015         | US\$20,000,000   | —  | 100%       | —        | —          | —        | —          | —                          | —          | Provision of software solutions |
| Beijing AsiaInfo Smart Big Data. <sup>(f)</sup> 北京亞信智慧數據科技有限公司   | The PRC<br>August 21, 2014      | RMB285,200,000   | —  | 100%       | —        | 92.023%    | —        | 92.023%    | —                          | 100%       | Provision of big data services  |
| Guangzhou Zihui Online Technology Co., Ltd 廣州智匯在線科技有限公司<br>(Previously known as Guangzhou AsiaInfo Big Data Co., Ltd. 廣州亞信數據有限公司)  | The PRC<br>October 19, 2016     | RMB10,000,000  | —  | —          | —        | 100%       | —        | 100%       | —                          | 100%       | Provision of big data services  |
| Century Big Data Ltd. 北京亞信時代數據處理有限公司   | The PRC<br>September 24, 2014   | RMB285,200,000   | —  | 100%       | —        | 100%       | —        | —          | —                          | —          | Provision of big data services  |
| Beijing AsiaInfo Big Data 北京亞信數據有限公司   | The PRC<br>October 22, 2014     | RMB285,200,000   | —  | 100%       | —        | 100%       | —        | —          | —                          | —          | Provision of big data services  |
| Wuxi AsiaInfo Big Data Limited 無錫亞信數據有限公司  | The PRC<br>November 05, 2015    | RMB200,000,000   | —  | 100%       | —        | 100%       | —        | —          | —                          | —          | Provision of big data services  |
| AsiaInfo Data Power (Fujian) Technologies Inc. 亞信數電(福建)科技有限公司  | The PRC<br>August 19, 2014      | RMB50,000,000  | —  | 56%        | —        | 56%        | —        | —          | —                          | —          | Provision of big data services  |
| Beijing AsiaInfo Hulian Technologies Limited 北京亞信互聯科技有限公司  | The PRC<br>February 27, 2015    | RMB25,000,000  | —  | 85%        | —        | 85%        | —        | —          | —                          | —          | Provision of big data services  |



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

48. PARTICULARS OF SUBSIDIARIES—continued

| Name of subsidiary <sup>(a)</sup>   | Place and date of establishment         | Issue and fully paid ordinary share capital/ registered capital | Proportion of interest attributable to the Company |            |          |            |          |            |                            |            | Principal activities  |
|---|---|---|--|------------|----------|------------|----------|------------|----------------------------|------------|---|
|   |   |   | 2015   |            | 2016     |            | 2017     |            | At the date of this report |            |   |
|   |   |   | Directly   | Indirectly | Directly | Indirectly | Directly | Indirectly | Directly                   | Indirectly |   |
| Beijing AsiaInfo Innovation Technologies Limited 北京亞信融創科技有限公司   | The PRC<br>February 28, 2015            | RMB20,000,000   | —  | 85%        | —        | 85%        | —        | —          | —                          | —          | Provision of big data services                              |
| Xianyang AsiaInfo Innovation Technologies Limited 咸陽亞信融創科技有限公司  | The PRC<br>November 06, 2015            | RMB10,000,000   | —  | 55.25%     | —        | 55.25%     | —        | —          | —                          | —          | Provision of big data services                              |
| Ningxia AsiaInfo Smart Big Data Co., Ltd. 寧夏亞信智慧數據科技有限公司  | The PRC<br>December 30, 2015            | RMB5,000,000  | —  | —          | —        | 55%        | —        | —          | —                          | —          | Provision of big data services                              |
| Guizhou Naxin Technologies Co., Ltd. 貴州納信科技有限公司   | The PRC<br>February 04, 2016            | RMB2,000,000  | —  | —          | —        | 51%        | —        | —          | —                          | —          | Provision of big data services                              |
| Ha’erbin Big Data Exchange Center Limited 哈爾濱數據交易中心有限公司   | The PRC<br>February 15, 2015            | RMB 30,000,000  | —  | 70%        | —        | 70%        | —        | —          | —                          | —          | Provision of big data services                              |
| Fuyang AsiaInfo Big Data Limited 阜陽亞信數據有限公司   | The PRC<br>July 29, 2016                | RMB10,000,000   | —  | —          | —        | 100%       | —        | —          | —                          | —          | Provision of big data services                              |
| Wuhan Changjiang Academy of Big Data Limited 武漢長江大數據研究院有限公司   | The PRC<br>July 25, 2016                | RMB5,000,000  | —  | —          | —        | 100%       | —        | —          | —                          | —          | Provision of big data services                              |
| Luzhou AsiaInfo Big Data Limited 瀘州亞信數據有限公司   | The PRC<br>September 23, 2016           | RMB10,000,000   | —  | —          | —        | 100%       | —        | —          | —                          | —          | Provision of big data services                              |
| AsiaInfo (H.K.) Development Limited (Previously known as Linkage-AsiaInfo (H.K.) Limited.)                        | HK<br>January 20, 2011                  | US\$90,000,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Investment holding  |
| AsiaInfo (H.K.) Limited (Previously known as AsiaInfo-Linkage (H.K.) Limited)                                     | HK<br>November 8, 2010                  | US\$9,500,000   | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Investment holding  |
| Hong Kong AsiaInfo Technologies Limited (Previously known as Hong Kong AsiaInfo-Linkage Technologies Limited)     | HK<br>November 25, 1998                 | HK\$20,000  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Investment holding  |
| Software HK <sup>(v)</sup>  | HK<br>September 17, 2014                | HK\$1   | —  | 88%        | —        | 88%        | —        | —          | —                          | —          | Investment holding  |
| AsiaInfo Big Data (H.K.) Limited 亞信大資料(香港)有限公司  | HK<br>June 20, 2014                     | US\$44,440,417  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Investment holding  |
| AsiaInfo Technologies HK 香港亞信科技有限公司   | HK<br>January 20, 1997                  | HK\$12.75   | 100%   | —          | 100%     | —          | 100%     | —          | 100%                       | —          | Investment holding  |
| AsiaInfo (U.K.) Limited <sup>(iii)(v)</sup> (Previously known as AsiaInfo-Linkage (U.K.) Limited) (“AsiaInfo UK”) | England and Wales<br>September 16, 2013 | Great Britain Pound 1   | 100%   | —          | —        | —          | —        | —          | —                          | —          | Provision of engineering and technical consultancy services |
| AsiaInfo Denmark ApS <sup>(iii)(v)</sup> (Previously known as AsiaInfo-Linkage Denmark ApS)                       | Denmark<br>October 11, 2013             | Danish Krona 5,512,317  | —  | 100%       | —        | —          | —        | —          | —                          | —          | Provision of engineering and technical consultancy services |
| AsiaInfo (Hungary) Kft. <sup>(iii)(v)</sup> (Previously known as AsiaInfo-Linkage (Hungary) Kft.)                 | Hungary<br>November 12, 2013            | Hungarian forint 200,000,000                                    | —  | 100%       | —        | —          | —        | —          | —                          | —          | Provision of engineering and technical consultancy services |
| Software BVI <sup>(iii)(v)</sup>  | The BVI<br>August 28, 2014              | US\$3,400   | 88%  | —          | 88%      | —          | —        | —          | —                          | —          | Investment holding  |
| AsiaInfo Big Data Limited <sup>(iii)</sup>  | The BVI<br>June 6, 2014                 | US\$44,440,417  | —  | 100%       | —        | 100%       | —        | 100%       | —                          | 100%       | Investment holding  |

None of the subsidiaries had issued any debt securities at the end of the Track Record Period.

All companies now comprising the Group have adopted December 31, as their financial year end. All companies established in the PRC were all registered as limited liability companies.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

48. PARTICULARS OF SUBSIDIARIES—continued

No audited statutory financial statements have been prepared for the Company since its date of incorporation as there is no statutory audit requirements in the BVI. No audited statutory financial statements have been prepared for the companies not incorporated in the PRC and HK.

Notes:

- (i) The English name is for identification purpose only and the official names of the companies are in Chinese.
- (ii) In July 2015, the Group acquired a further 10% additional equity interests in Shanghai AsiaInfo Online from a non-controlling shareholder for a cash consideration of RMB500,000. Upon the acquisition, Shanghai AsiaInfo Online became a wholly owned subsidiary of the Group.
- (iii) No audited statutory financial statements have been prepared for the companies since their date of incorporation or during the Track Record Period as they are incorporated in a jurisdiction where there is no statutory audit requirements.
- (iv) In May 2016, AsiaInfo UK, altogether with its wholly-owned subsidiaries, AsiaInfo Denmark ApS and AsiaInfo (Hungary) Kft., were disposed by the Group to a related party controlled by the ultimate shareholder for a consideration of RMB13,140,000. Details are set out in Note 44.
- (v) In August 2017, the Group disposed AsiaInfo Guangzhou Software, along with Software BVI and Software HK to a third-party company, for an aggregated consideration of RMB22,000. Details are set out in Note 44.
- (vi) In March 2016, the Group disposed of Nanjing AsiaInfo Internet to a third-party company for a consideration of RMB107,498,000. Details are set out in Note 44.
- (vii) Naomi was deregistered on February 24, 2016.
- (viii) On September 30, 2016, the Group entered into agreements with certain third-party companies, pursuant to which the third-party companies made an aggregated capital injection of RMB210,000,000 to acquire 7.977% equity interests in Beijing AsiaInfo Smart Big Data Co., Ltd. (“Smart Big Data”), which was previously fully owned by the Group; the Group then held 92.023% of the total equity share of Smart Big Data.

The statutory financial statements of the following subsidiaries established in the PRC and HK were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by the following certified public accountants registered in the PRC or Hong Kong.

| Name of subsidiary <sup>(a)</sup>   | Financial year ended             | Name of auditors  |
|-------------------------------------|----------------------------------|---|
| AsiaInfo China                      | December 31, 2015, 2016 and 2017 | Rui Hua Certified Public Accountants LLP <sup>(i)</sup> (“Rui Hua”)<br>瑞華會計師事務所（特殊普通合夥）<br>（“瑞華”） |
| AsiaInfo Nanjing                    | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華   |
| Shanghai AsiaInfo Online            | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華   |
| Hangzhou AsiaInfo Cloud             | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華   |
| Naomi                               | December 31, 2015                | N/A <sup>(ii)</sup>   |
| AsiaInfo Guangzhou Software         | December 31, 2015                | Pan-China Certified Public Accountants LLP <sup>(i)</sup><br>天健會計師事務所（特殊普通合夥）                     |
|                                     | December 31, 2016 and 2017       | Rui Hua<br>瑞華   |
| Nanjing AsiaInfo Software Co., Ltd. | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華   |
| Hunan AsiaInfo Software Co., Ltd.   | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華   |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

48. PARTICULARS OF SUBSIDIARIES—continued

| Name of subsidiary <sup>(a)</sup>                 | Financial year ended             | Name of auditors           |
|---|----------------------------------|----------------------------|
| Guangzhou AsiaInfo Technology Co., Ltd.           | December 31, 2017                | Rui Hua<br>瑞華              |
| Hangzhou AsiaInfo Software Co., Ltd.              | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華              |
| Nanjing AsiaInfo Internet                         | December 31, 2015                | Rui Hua<br>瑞華              |
| Beijing AsiaInfo Smart Big Data                   | December 31, 2015, 2016 and 2017 | Rui Hua<br>瑞華              |
| Guangzhou Zihui Online Technology Co., Ltd.       | December 31, 2016 and 2017       | Rui Hua<br>瑞華              |
| Century Big Data Co., Ltd.                        | December 31, 2016 and 2017       | Rui Hua<br>瑞華              |
| Beijing AsiaInfo Big Data                         | December 31, 2015 and 2016       | Rui Hua<br>瑞華              |
| Wuxi AsiaInfo Big Data Limited                    | December 31, 2015 and 2016       | Rui Hua<br>瑞華              |
| AsiaInfo Data Power (Fujian) Technologies Inc.    | December 31, 2015 and 2016       | Rui Hua<br>瑞華              |
| Beijing AsiaInfo Hulian Technologies Limited      | December 31, 2015 and 2016       | Rui Hua<br>瑞華              |
| Beijing AsiaInfo Innovation Technologies Limited  | December 31, 2015 and 2016       | Rui Hua<br>瑞華              |
| Xianyang AsiaInfo Innovation Technologies Limited | December 31, 2015                | N/A <sup>(iv)</sup>        |
|   | December 31, 2016                | Rui Hua<br>瑞華              |
| Ningxia AsiaInfo Smart Big Data Co., Ltd.         | December 31, 2016                | N/A <sup>(iii)</sup>       |
| Guizhou Naxin Technologies Co., Ltd.              | December 31, 2016                | N/A <sup>(v)</sup>         |
| Ha’erbin Big Data Exchange Center Limited         | December 31, 2015 and 2016       | Rui Hua<br>瑞華              |
| Fuyang AsiaInfo Big Data Limited                  | December 31, 2016                | N/A <sup>(v)</sup>         |
| Wuhan Changjiang Academy of Big Data Limited      | December 31, 2016                | Rui Hua<br>瑞華              |
| AsiaInfo (H.K.) Development Limited               | December 31, 2015, 2016 and 2017 | BDO Limited <sup>(i)</sup> |
| AsiaInfo (H.K.) Limited                           | December 31, 2015, 2016 and 2017 | BDO Limited <sup>(i)</sup> |
| Hong Kong AsiaInfo Technologies Limited           | December 31, 2015, 2016 and 2017 | BDO Limited <sup>(i)</sup> |
| Software HK                                       | December 31, 2015 and 2016       | BDO Limited <sup>(i)</sup> |
| AsiaInfo Big Data (H.K.) Limited                  | December 31, 2015, 2016 and 2017 | BDO Limited <sup>(i)</sup> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

48. PARTICULARS OF SUBSIDIARIES—continued

| Name of subsidiary <sup>(a)</sup> | Financial year ended             | Name of auditors           |
|-----------------------------------|----------------------------------|----------------------------|
| AsiaInfo Technologies HK          | December 31, 2015, 2016 and 2017 | BDO Limited <sup>(i)</sup> |

Notes:

- (i) The English names for all the PRC certified public accountants firms are used for identification purpose only.
- (ii) No audited financial statements for the year ended December 31, 2015 have been prepared as Naomi was in the process of liquidation during the year ended December 31, 2015 and was finally dissolved on February 24, 2016.
- (iii) No audited financial statements for the year ended December 31, 2016 have been prepared as Ningxia AsiaInfo Smart Big Data Co. Ltd., Fuyang AsiaInfo Big Data Limited and Luzhou AsiaInfo Big Data Limited as all the companies were in the process of liquidation during the year ended December 31, 2016 and were finally disposed of in early 2017.
- (iv) No audited financial statements for the year ended December 31, 2015 have been prepared as Xianyang AsiaInfo as Xianyang AsiaInfo was established in November 2015 with no operation until the year 2016.
- (v) No audited financial statements for the year ended December 31, 2016 have been prepared as the companies have been inactive since its establishment.

49. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in the Historical Financial Information, subsequent to the end of the Track Record Period, the following significant events took place:

- (a) On March 15, 2018, Beijing AsiaInfo Smart Big Data entered into an investment termination agreements with its non-controlling shareholders which owns an aggregated equity interests of 7.977%. Pursuant to the agreements, Beijing AsiaInfo Smart Big Data acquired the non-controlling interests from the non-controlling Shareholders with a total consideration amounting to RMB210,000,000.
- (b) On April 16, 2018, the par value of the shares of the Company was re-denominated from US\$0.10 per share to HK\$0.0000001 per share and the Company was authorized to issue 100,000,000,000 shares.

On June 26, 2018, the Company allotted and issued 78,043,522 new shares of HK\$0.0000001 par value each to the shareholders of Skipper Holdings in relation to the Group’s reorganization and AsiaInfo Holdings surrendered 9,289 shares of HK\$0.0000001 par value on the same day.

- (c) On June 28, 2018, the Company approved and adopted a [REDACTED] share option scheme and a [REDACTED] restricted share award scheme relating to certain outstanding share options and restricted share unites previously granted by AsiaInfo Holdings and Skippers Holdings under the 2011 Plan and the 2014 Plan, respectively.

On July 11, 2018, the Company allotted and issued (i) 5,875 shares with a par value of HK\$0.0000001 each to certain grantees for the exercise of 5,875 share options granted under the [REDACTED] share option scheme; and (ii) 466,126 shares to certain restricted share award grantees which are vested immediately upon the grant.

- (d) On May 21, 2018, the board of directors of the Company declared a dividend in an amount of US\$108,000,000 (equivalent to RMB688,684,000) to AsiaInfo Holdings, the then sole shareholder, which is used to offset with the amount due from AsiaInfo Holdings upon the debt restructuring as described below.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**49. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD—continued**

On June 25, 2018, a deed of restructuring was signed between the Company and several related parties, through which the amount due from such related parties were all restructured and taken up by amount due from AsiaInfo Holdings.

(e) [ ]

**50. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to December 31, 2017.

*The following is the text of a report set out on page IA-[3] to IA-[48], received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountant, Hong Kong, for the purpose of incorporation in this [REDACTED].*



## REPORT ON REVIEW OF CONDENSED COMBINED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF ASIAINFO TECHNOLOGIES LIMITED  
(incorporated in the British Virgin Islands with limited liability)

### Introduction

We have reviewed the condensed combined financial statements of AsiaInfo Technologies Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [IA-3] to [IA-48], which comprise the condensed combined statement of financial position as at March 31, 2018 and the related condensed combined statement of profit or loss and other comprehensive income, condensed combined statement of changes in equity and condensed combined statement of cash flows for the three months period then ended, and certain explanatory notes. The condensed combined financial statements have been prepared by the directors of the Company solely for the purpose of the [REDACTED] and [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. As a result, the condensed combined financial statements may not be suitable for another purpose. The condensed combined financial statements have been prepared in accordance with the basis of preparation and the accounting policies as set out in Notes 2 and 3, respectively, to the condensed combined financial statements. Our responsibility is to express a conclusion on these condensed combined financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed combined financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed combined financial statements are not prepared, in all material respects, in accordance with the basis of preparation and the accounting policies set out in Notes 2 and 3, respectively, to the condensed combined financial statements.

[Deloitte Touche Tohmatsu]  
Certified Public Accountants

Hong Kong

[Date]



APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|  | Notes | Three months ended March 31, |                        |
|--|-------|------------------------------|------------------------|
|  |       | 2018                         | 2017                   |
|  |       | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| <b>Continuing operations</b>   |       |                              |                        |
| Revenue  | 4     | 1,025,955                    | 966,733                |
| Cost of sales  |       | (740,582)                    | (751,160)              |
| Gross profit   |       | 285,373                      | 215,573                |
| Other income   | 5     | 22,082                       | 32,262                 |
| Other gains and losses   | 6     | 66,410                       | 9,097                  |
| Selling and marketing expenses   |       | (86,688)                     | (94,908)               |
| Administrative expenses  |       | (87,487)                     | (75,663)               |
| Research and development expenses  |       | (87,752)                     | (127,585)              |
| Share of results of associates   |       | 443                          | (231)                  |
| Finance costs  | 7     | (19,537)                     | (24,130)               |
| [REDACTED]   |       | (9,635)                      | —                      |
| Profit (loss) before tax   |       | 83,209                       | (65,585)               |
| Income tax (expenses) benefit  | 8     | (6,307)                      | 3,704                  |
| Profit (loss) for the period from continuing operations                      | 9     | 76,902                       | (61,881)               |
| <b>Discontinued operations</b>   |       |                              |                        |
| Loss for the period from discontinued operations                             | 10    | (1,279)                      | (24,616)               |
| Profit (loss) for the period   |       | 75,623                       | (86,497)               |
| Other comprehensive (expense) income for the period:                         |       |                              |                        |
| <i>Items that may be subsequently reclassified to profit or loss:</i>        |       |                              |                        |
| Exchange differences arising on translation of foreign operations            |       | (10,536)                     | 561                    |
| Total comprehensive income (expense) for the period                          |       | 65,087                       | (85,936)               |
| Profit (loss) for the period attributable to:                                |       |                              |                        |
| Owners of the Company  |       | 76,802                       | (67,449)               |
| Non-controlling interests  |       | (1,179)                      | (19,048)               |
|  |       | 75,623                       | (86,497)               |
| Total comprehensive income (expense) for the period attributable to:         |       |                              |                        |
| Owners of the Company  |       | 66,266                       | (66,888)               |
| Non-controlling interests  |       | (1,179)                      | (19,048)               |
|  |       | 65,087                       | (85,936)               |
| Profit (loss) for the period attributable to the owners of the Company from: |       |                              |                        |
| Continuing operations  |       | 78,081                       | (47,036)               |
| Discontinued operations  |       | (1,279)                      | (20,413)               |
|  |       | 76,802                       | (67,449)               |
| Loss for the year attributable to the non-controlling interests from:        |       |                              |                        |
| Continuing operations  |       | (1,179)                      | (14,845)               |
| Discontinued operations  |       | —                            | (4,203)                |
|  |       | (1,179)                      | (19,048)               |

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION

|  | Notes | At March 31,<br>2018<br>RMB'000<br>(unaudited) | At December 31,<br>2017<br>RMB'000<br>(audited) |
|--|-------|--|---|
| <i>Non-current assets</i>                              |       |  |   |
| Property, plant and equipment                          | 13    | 257,509  | 262,629   |
| Prepaid lease payments                                 |       | 84,984   | 85,489  |
| Intangible assets                                      |       | 52,532   | 60,452  |
| Goodwill   | 14    | 1,932,246                                      | 1,932,246                                       |
| Investments in associates                              |       | 56,700   | 56,258  |
| Amounts due from fellow subsidiaries                   | 25    | 22,255   | 23,339  |
| Amounts due from immediate holding company             | 25    | —  | 614,150   |
| Deferred tax assets                                    |       | 208,878  | 194,389   |
| Pledged bank deposits                                  | 19    | 517,804  | 39,669  |
| Other non-current assets                               |       | 48,086   | 46,247  |
| Total non-current assets                               |       | <u>3,180,994</u>                               | <u>3,314,868</u>                                |
| <i>Current assets</i>                                  |       |  |   |
| Inventories  |       | 9,416  | 7,100   |
| Trade and notes receivables                            | 15    | 794,221  | 888,445   |
| Prepayment, deposits and other receivables             | 16    | 201,398  | 176,501   |
| Available-for-sale investment                          |       | —  | 3,665   |
| Contract assets  | 17    | 1,760,952                                      | 1,632,039                                       |
| Amounts due from fellow subsidiaries                   | 24    | 120,149  | 246,244   |
| Amounts due from immediate holding company             | 24    | 604,744  | —   |
| Amounts due from intermediate holding companies        | 24    | 5,426  | 5,645   |
| Pledged bank deposits                                  | 18    | 570,363  | 537,089   |
| Bank balances and cash                                 | 18    | 697,085  | 1,450,588                                       |
| Total current assets                                   |       | <u>4,763,754</u>                               | <u>4,947,316</u>                                |
| <i>Current liabilities</i>                             |       |  |   |
| Trade and notes payables                               | 19    | 527,551  | 612,500   |
| Contract liabilities                                   | 17    | 292,761  | 387,913   |
| Other payables, deposits received and accrued expenses | 20    | 2,045,268                                      | 1,890,500                                       |
| Amounts due to fellow subsidiaries                     | 24    | 112,925  | 200,672   |
| Income tax payable                                     |       | 229,031  | 238,820   |
| Bank borrowings  | 21    | 1,704,075                                      | 1,154,593                                       |
| Total current liabilities                              |       | <u>4,911,611</u>                               | <u>4,484,998</u>                                |
| Net current (liabilities) assets                       |       | <u>(147,857)</u>                               | <u>462,318</u>                                  |
| Total assets less current liabilities                  |       | <u>3,033,137</u>                               | <u>3,777,186</u>                                |
| <i>Non-current liabilities</i>                         |       |  |   |
| Deferred tax liabilities                               |       | 130,085  | 130,971   |
| Bank borrowings  | 21    | —  | 592,744   |
| Amounts due to fellow subsidiaries                     | 24    | 6,617  | 14,695  |
| Total non-current liabilities                          |       | <u>136,702</u>                                 | <u>738,410</u>                                  |
| Net assets   |       | <u>2,896,435</u>                               | <u>3,038,776</u>                                |
| <i>Capital and reserves</i>                            |       |  |   |
| Share capital  | 22    | —  | —   |
| Reserves   |       | 2,896,435                                      | 3,018,835                                       |
| Equity attributable to owners of the Company           |       | 2,896,435                                      | 3,018,835                                       |
| Non-controlling interests                              |       | —  | 19,941  |
| Total equity   |       | <u>2,896,435</u>                               | <u>3,038,776</u>                                |

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY

|   | Attributable to the owners of the Company |                  |                       |                        |                                 |                  |                     |           |                              |                 |
|---|---|------------------|-----------------------|------------------------|---------------------------------|------------------|---------------------|-----------|------------------------------|-----------------|
|   | Paid-in/<br>share<br>capital              | Share<br>premium | Merger<br>reserve     | Translation<br>reserve | Statutory<br>surplus<br>reserve | Other<br>reserve | Retained<br>profits | Sub-total | Non-controlling<br>interests | Total<br>equity |
|   | RMB'000<br>(note ii)                      | RMB'000          | RMB'000<br>(note iii) | RMB'000                | RMB'000<br>(note i)             | RMB'000          | RMB'000             | RMB'000   | RMB'000                      | RMB'000         |
| At December 31, 2017 (audited) .....  | —   | 135,775          | 285,200               | (5,762)                | 173,845                         | 1,422,366        | 1,007,411           | 3,018,835 | 19,941                       | 3,038,776       |
| Effect arising from initial application of HKFRS 9 .....                      | —   | —                | —                     | —                      | —                               | —                | (19,576)            | (19,576)  | —                            | (19,576)        |
| Adjusted balance at January 1, 2018 .....                                     | —   | 135,775          | 285,200               | (5,762)                | 173,845                         | 1,422,366        | 987,835             | 2,999,259 | 19,941                       | 3,019,200       |
| Profit (loss) for the period .....  | —   | —                | —                     | —                      | —                               | —                | 76,802              | 76,802    | (1,179)                      | 75,623          |
| Other comprehensive expense for the period, net of tax .....                  | —   | —                | —                     | (10,536)               | —                               | —                | —                   | (10,536)  | —                            | (10,536)        |
| Total comprehensive (expense) income for the period .....                     | —   | —                | —                     | (10,536)               | —                               | —                | 76,802              | 66,266    | (1,179)                      | 65,087          |
| Recognition of equity-settled share-based payments<br>(Note 25) .....         | —   | —                | —                     | —                      | —                               | —                | —                   | —         | —                            | —               |
| Acquisition of additional equity interests in a subsidiary<br>(note iv) ..... | —   | —                | —                     | —                      | —                               | 22,148           | —                   | 22,148    | —                            | 22,148          |
| At March 31, 2018 (unaudited) .....   | —   | 135,775          | 285,200               | (6,298)                | 173,845                         | 1,253,276        | 1,064,637           | (191,238) | (18,762)                     | (210,000)       |
| At January 1, 2017 (audited) .....  | 285,200                                   | 135,775          | —                     | (9,159)                | 175,825                         | 1,297,457        | 674,718             | 2,559,816 | 26,415                       | 2,586,231       |
| Loss for the period .....   | —   | —                | —                     | —                      | —                               | —                | (67,449)            | (67,449)  | (19,048)                     | (86,497)        |
| Other comprehensive income for the period, net of tax .....                   | —   | —                | —                     | 561                    | —                               | —                | —                   | 561       | —                            | 561             |
| Total comprehensive income (expense) for the period .....                     | —   | —                | —                     | 561                    | —                               | —                | (67,449)            | (66,888)  | (19,048)                     | (85,936)        |
| Recognition of equity-settled share-based payments<br>(Note 25) .....         | —   | —                | —                     | —                      | —                               | 7,465            | —                   | 7,465     | —                            | 7,465           |
| At March 31, 2017 (unaudited) .....   | 285,200                                   | 135,775          | —                     | (8,598)                | 175,825                         | 1,304,922        | 607,269             | 2,500,393 | 7,367                        | 2,507,760       |

Notes:

- (i) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the “PRC”), the PRC subsidiaries are required to set aside 10% of their profit after tax as per statutory financial statements determined under the PRC laws and regulations for the statutory surplus reserve fund until the reserve reach 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries. The statutory surplus reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the respective subsidiaries.
- (ii) The paid-in/share capital of the Group represented the share capital of AsiaInfo Technologies HK and the paid-in capital of AsiaInfo Big Data Limited (“AsiaInfo Big Data”) prior to the completion of the group reorganization.
- (iii) As AsiaInfo Big Data was established in March 2015, the capital contribution amount of RMB285,200,000 invested into AsiaInfo Big Data was shown as an increase in merger reserve in the combined statements of changes in equity. Subsequently in 2017, AsiaInfo Technologies HK acquired 100% equity interest of AsiaInfo Big Data for a consideration of nil. As both AsiaInfo Technologies HK and AsiaInfo Big Data were under common control of their parent company, Skipper Holdings Limited (“Skipper Holdings”), the acquisition was regarded as a business combination under common control. Accordingly, the condensed combined financial statements has been prepared as if AsiaInfo Big Data has been included in the Group since its inception.
- (iv) On March 15, 2018, Beijing AsiaInfo Smart Big Data entered into an investment termination agreements with its non-controlling shareholders which owns an aggregated equity interests of 7.977%. Pursuant to the agreements, Beijing AsiaInfo Smart Big Data acquired the non-controlling interests from the non-controlling Shareholders with a total consideration amounting to RMB210,000,000. The carrying amount of non-controlling interest on the date of acquisition was RMB31,243,000 and the difference between the consideration paid and the carrying amount of the non-controlling interests was recorded as other reserve.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF CASH FLOWS

|   | Three months ended March 31, |                        |
|---|------------------------------|------------------------|
|   | 2018                         | 2017                   |
|   | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Cash flows from operating activities  |                              |                        |
| Profit (loss) before tax from continuing operations   | 83,209                       | (65,585)               |
| Loss before tax from discontinued operations  | (1,279)                      | (24,616)               |
| Adjustments for:  |                              |                        |
| Depreciation of property, plant and equipment   | 6,915                        | 10,774                 |
| Amortization of intangible assets   | 9,493                        | 13,473                 |
| Amortization of prepaid lease payments  | 505                          | 505                    |
| Gain on disposal of property, plant and equipment   | (131)                        | (265)                  |
| Interest income from related parties  | (3,956)                      | (4,806)                |
| Interest income from current bank accounts  | (7,594)                      | (3,184)                |
| Finance costs   | 19,537                       | 24,130                 |
| Net exchange gain   | (38,999)                     | (6,376)                |
| Reversal of allowance for trade receivables   | (630)                        | (406)                  |
| Allowance for other receivables   | —                            | 572                    |
| Allowance for contract assets   | 975                          | —                      |
| Share-based compensation expenses   | 22,148                       | 7,465                  |
| Share of results of associates  | (443)                        | (750)                  |
| Share of results of joint ventures  | —                            | (1,123)                |
| Operating cash flows before movements in working capital  | 89,750                       | (50,192)               |
| Increase in inventories   | (2,316)                      | (13,009)               |
| Decrease in trade and notes receivables   | 91,321                       | 51,828                 |
| (Increase) decrease in prepayment, deposits and other receivables                                   | (25,813)                     | 33,453                 |
| Increase in contract assets   | (148,554)                    | (338,969)              |
| (Increase) decrease in amounts due from fellow subsidiaries   | (73,081)                     | 21,191                 |
| (Increase) decrease in amounts due from intermediate holding companies                              | (219)                        | 1,061                  |
| (Increase) decrease in amounts due from associates  | (1,693)                      | 9,313                  |
| (Increase) decrease in other non-current assets   | (1,839)                      | 1,706                  |
| Decrease in trade and notes payables  | (84,947)                     | (30,582)               |
| Decrease in contract liabilities  | (95,152)                     | (83,965)               |
| Increase in other payables, deposits received and accrued expenses                                  | 231,382                      | 21,663                 |
| Decrease in amounts due to intermediate holding companies   | —                            | (15,618)               |
| Decrease in amounts due to fellow subsidiaries  | (85,284)                     | (37,741)               |
| (Decrease) increase in amounts due to associates  | (861)                        | 184                    |
| Increase in other non-current liabilities   | —                            | 2,621                  |
| Cash used in operating activities   | (107,306)                    | (427,056)              |
| Income tax paid   | (28,929)                     | (10,378)               |
| NET CASH USED IN OPERATING ACTIVITIES   | (136,235)                    | (437,434)              |
| Cash flows from investing activities  |                              |                        |
| Purchases of property, plant and equipment  | (3,915)                      | (6,735)                |
| Proceeds on disposal of property, plant and equipment   | 2,276                        | 1,362                  |
| Purchases of intangible assets  | (1,573)                      | —                      |
| Acquisition of investment in associates   | —                            | (56,000)               |
| Proceeds on disposal of available-for-sale investments  | —                            | 20,000                 |
| Proceeds on disposal of an investment accounted for using the equity method                         | 3,665                        | —                      |
| Interest received   | 29                           | 738                    |
| Placement of pledged bank deposits  | (615,715)                    | (181,928)              |
| Withdraw of pledged bank deposits   | 104,306                      | 28,385                 |
| Repayment from related parties  | 84                           | 56,414                 |
| Advance to related parties  | (61,895)                     | (4,952)                |
| NET CASH USED IN INVESTING ACTIVITIES   | (572,738)                    | (142,716)              |
| Cash flows from financing activities  |                              |                        |
| New bank borrowings raised  | 1,183,781                    | 842,096                |
| Repayment of bank borrowings  | (1,185,118)                  | (701,204)              |
| Advance to related parties  | (9,680)                      | (70,942)               |
| Prepayment of accrued [REDACTED]  | (490)                        | —                      |
| Interest paid   | (19,537)                     | (24,130)               |
| NET CASH USED IN FINANCING ACTIVITIES   | (31,044)                     | 45,820                 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS   | (740,017)                    | (534,330)              |
| CASH AND CASH EQUIVALENT AT THE BEGINNING OF PERIOD   | 1,450,588                    | 1,583,120              |
| Effect of exchange rate changes   | (13,486)                     | (52,852)               |
| CASH AND CASH EQUIVALENTS AT THE END OF PERIOD AT MARCH 31<br>REPRESENTED BY BANK BALANCES AND CASH | 697,085                      | 995,938                |

## NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS

### 1. GENERAL

The Company was incorporated as a company with limited liability in the British Virgin Islands on July 15, 2003. The address of the registered office of the Company and the principal place of business of the Company are disclosed in the section headed “Corporate Information” in the [REDACTED]. The Company changed its name from Linkage Technologies Investment Limited to AsiaInfo-Linkage Technologies Investment Limited on October 28, 2010, which was subsequently renamed as AsiaInfo Technologies Investment Limited on April 30, 2014, to AsiaInfo Technologies Limited (亞信科技有限公司) on June 28, 2018, and was further renamed to AsiaInfo Technologies Limited (亞信科技控股有限公司) on July 10, 2018.

The Company is an investment holding company. The principal activities of the Group are mainly engaged in provision of software products and related services.

The ultimate holding company of the Group throughout the Track Record Period and up to the date of issuance of the combined financial statements is Skipper Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on August 24, 2012, which is controlled by CITIC Capital Entities (“CITIC Capital”), which represents a group of entities including Skipper Investment Limited, Power Joy (Cayman) Limited, CITIC Capital China Partners II, L.P., CCP II GP, Ltd., CCP Ltd, CITIC Capital Partners Limited and CITIC Capital Holdings Limited.

The condensed combined financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and its primary subsidiaries in the PRC.

### 2. REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONDENSED COMBINED FINANCIAL STATEMENTS

#### Group Reorganization

Pursuant to the group reorganization (“Reorganization”) as set out in the section headed “History, Development and Reorganization” in the [REDACTED], the Company has become the holding company of the companies now comprising the Group on April 30, 2018. The Company and its subsidiaries have been under the common control of CITIC Capital throughout three months ended March 31, 2018, and before and after the Reorganization, or since their respective dates of incorporation, where there is a shorter period.

The main steps of the Reorganization are described below:

- (i) On April 29, 2018, the Company, AsiaInfo Holdings, LLC (“AsiaInfo Holdings”) and AsiaInfo Technologies (H.K.) Limited (“AsiaInfo Technologies HK”) entered into a deed of reorganization (the “Reorganization Deed”) pursuant to which the Company agreed to transfer all of the issued shares of Hong Kong AsiaInfo Technologies Limited (“HK AsiaInfo Technologies”) and AsiaInfo Big Data Limited (“AsiaInfo Big Data”) to AsiaInfo Technologies HK, in consideration for AsiaInfo Technologies HK transferring all issued 9,288 shares in the Company to AsiaInfo Holdings. Upon the completion of the transfer under the Reorganization Deed, the Company became a direct wholly-owned subsidiary of AsiaInfo Holdings, and HK AsiaInfo Technologies and AsiaInfo Big Data continued to be indirect wholly-owned subsidiary of AsiaInfo Holdings.



- (ii) On April 30, 2018, the Company and AsiaInfo Holdings entered into a share transfer agreement pursuant to which the Company issued and allotted one new share to AsiaInfo Holdings in consideration for AsiaInfo Holdings transferring all of the issued shares of AsiaInfo Technologies HK to the Company. Immediately after the completion of the transfer, AsiaInfo Holdings held an aggregated 9,289 ordinary shares, representing the entire issued shares of the Company, and AsiaInfo Technologies HK became a direct wholly-owned subsidiary of the Company.
- (iii) On June 26, 2018, a share surrender letter was signed by AsiaInfo Holdings pursuant to which AsiaInfo Holdings surrendered all of the held 9,289 ordinary shares of the Company. Upon the surrender of shares, AsiaInfo Holdings is no longer a shareholder of the Company and the Company continued to be an indirect wholly-owned subsidiary of Skipper Holdings.

Prior to obtaining control of the Group by the Company, it was controlled by Skipper Holdings. After the Company obtaining control of the Group, the Group was also controlled by Skipper Holdings. Therefore, the Group resulting from the Reorganization is regarded as a continuing entity and the condensed combined financial statements of the Group have been prepared as if the Company had been the holding company of the Group for the three months ended March 31, 2018 and 2017.

#### Basis of preparation and presentation of the condensed combined financial statements

The condensed combined statement of profit or loss and other comprehensive income, condensed combined statement of changes in equity and condensed combined statement of cash flows of the Group for the three months ended March 31, 2018 include the results, changes in equity and cash flows of the companies now comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the three months ended March 31, 2018 and 2017, or since the respective dates of incorporation where there is a shorter period.

The condensed combined statements of financial position of the Group as at March 31, 2018 and December 31, 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group and the Company as if the current group structure had been in existence as at those dates taking into account the respective dates of incorporation, where applicable.

Notwithstanding that the Group recorded net current liabilities of RMB147,857,000 as at March 31, 2018, the condensed combined financial statements have been prepared on the going concern basis. The Company may seek to obtain financing through equity and debt issuances to finance its financial liabilities and operations. The directors of the Company have reviewed the Group’s cash flow projections, which cover a period of twelve months from the end of the reporting period. The directors of the Company are of the opinion that taken into account the above plans and measures, the Group will have sufficient working capital to meet its financial liabilities and obligations as and when they fall due and to sustain its operations for the next twelve months from the end of the reporting period.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The condensed combined financial statements have been prepared based on the accounting policies that conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the condensed combined

financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The condensed combined financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed combined financial statements for the three months ended March 31, 2018 are the same as those followed in the preparation of the Group’s combined financial statements for the year ended December 31, 2017 as stated in Appendix I in the [REDACTED].

*Application of new and amendments to HKFRSs*

Other than HKFRS 15, “Revenue from contracts with customers and related amendments”, which the Group has early adopted, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group’s condensed combined financial statements.

|                       |   |
|-----------------------|---|
| HKFRS 9               | Financial Instruments   |
| HK(IFRIC)-Int 22      | Foreign Currency Transactions and Advance Consideration                 |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions      |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle            |
| Amendments to HKAS 40 | Transfers of Investment Property  |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

*Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses (“ECL”) for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.



Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS39 *Financial Instruments: Recognition and Measurement*.

### 3.1 *Key changes in accounting policies resulting from application of HKFRS 9*

#### 3.1.1 Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognized financial assets that are within the scope of HKFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”), except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividends or interest earned on the financial asset and is included in the “other gains and losses” line item.

The directors of the Company reviewed and assessed the Group’s financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group’s financial assets and the impacts thereof are detailed in Note 3.2.

### 3.1.2 Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, contract assets, other receivables and amounts due from related parties). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed for debtors collectively using a provision matrix with groupings of aging.

For all other instruments, the Group measures the loss allowance equal to the 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

#### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognized through a loss allowance account.

For the purposes of impairment assessment, other receivables, amount due from related parties and other non-current assets are considered to have low credit risk as the counterparties to these financial assets have a high credit rating. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12m ECL.

In determining the ECL for other receivables, amount due from related parties, bank balances and cash and other non-current assets, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables, amount due from related parties and other non-current assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the lifetime ECL allowance is insignificant at January 1, 2018 and March 31, 2018.

At as January 1, 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.

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3.2. Summary of effects arising from initial application of HKFRS 9

3.2.1 Classification and measurement

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

|                                       | Original measurement category under HKAS 39 | New measurement category under HKFRS 9 | Original carrying amount at December 31, 2017 under HKAS 39<br>RMB'000 | Additional loss allowance recognized under HKFRS 9<br>RMB'000 | New carrying amount at January 1, 2018 under HKFRS 9<br>RMB'000 |
|---------------------------------------|---|--|--|---|---|
| Trade and notes receivables . . . . . | Loans and receivables                       | Financial assets at amortized cost     | 888,445  | (2,479)   | 885,966   |
| Contract assets . . . . .             | Loans and receivables                       | Financial assets at amortized cost     | 1,632,039  | (19,641)  | 1,612,398   |

No effect arising from initial application of HKFRS 9 in relation to classification.

3.2.2 Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics, historical collections and debtors’ aging information. The contract assets relate to unbilled work in progress and have substantially the same risk characteristic as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

The table below shows the amount of adjustment for each financial statement line item of the Group affected by the application of HKFRS 9.

Impact on assets and equity as at January 1, 2018:

|                                       | As previously reported<br>RMB'000 | HKFRS 9 adjustment<br>RMB'000 | As restated<br>RMB'000 |
|---------------------------------------|-----------------------------------|-------------------------------|------------------------|
| Trade and notes receivables . . . . . | 888,445                           | (2,479)                       | 885,966                |
| Contract assets . . . . .             | 1,632,039                         | (19,641)                      | 1,612,398              |
| Deferred tax assets . . . . .         | 194,389                           | 2,544                         | 196,933                |
| Total effect on net assets . . . . .  |                                   | (19,576)                      |                        |
| Reserves . . . . .                    | 3,018,835                         | (19,576)                      | 2,999,259              |
| Total effect on equity . . . . .      |                                   | (19,576)                      |                        |

There is no significant impact on other financial assets under ECL model upon adoption at January 1, 2018.

#### 4. REVENUES AND SEGMENT INFORMATION

The Group’s revenue is primarily generated from project-based software development agreements, under which the Group develops software products and provides deployment services at fixed prices and/or variable prices. Revenue is recognized net of sales related taxes.

The Group’s operating segments are determined based on information reported to the chief executive officer (“CEO”) of the Company, being the chief operating decision maker (“CODM”) of the Group for the purpose of resource allocation and assessment of segment performance focuses on types of goods and services provided. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable segments under HKFRS 8 are as follows:

|                            |  |
|----------------------------|--|
| Software business:         | Representing (1) software products and related service; (2) data-driven operation services; and (3) others, including sales of third-party hardware and software; system integration services, business consulting services and corporate trainings. |
| Network security business: | Representing provision of network security related software products and services.   |

The performance obligation for rendering software products and related deployment services are mainly derived from the project-based software development contracts and are satisfied over time which usually range from six months to eighteen months.

The rendering of data driven operation services are mainly derived from telecom operators’ government and enterprise customers with fixed-price contracts to perform data analysis services to analyze customer behavior and operational efficiency. The performance obligation of rendering of data driven operation services are satisfied over time, ranging from fifteen days to six months.

The performance obligation of sales of third-party hardware and software is satisfied at a point in time when the hardware and/or software being accepted by the customers.

The performance obligation of rendering network security related software products and services is satisfied over time generally ranging from six months to eighteen months.

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**Disaggregation of revenue**

|                                      | <b>Three months ended March 31,</b> |                                |
|--------------------------------------|-------------------------------------|--------------------------------|
|                                      | <b>2018</b>                         | <b>2017</b>                    |
|                                      | <b>RMB'000<br/>(unaudited)</b>      | <b>RMB'000<br/>(unaudited)</b> |
| <i>Timing of revenue recognition</i> |                                     |                                |
| At a point in time .....             | 13,767                              | 26,586                         |
| Over time .....                      | <u>1,012,188</u>                    | <u>940,147</u>                 |
|                                      | <u>1,025,955</u>                    | <u>966,733</u>                 |
| <i>Types of goods and services</i>   |                                     |                                |
| Provision of services .....          | 1,016,272                           | 941,971                        |
| Sales of goods .....                 | <u>9,683</u>                        | <u>24,762</u>                  |
|                                      | <u>1,025,955</u>                    | <u>966,733</u>                 |
| <b>Three months ended March 31,</b>  |                                     |                                |
|                                      | <b>2018</b>                         | <b>2017</b>                    |
|                                      | <b>RMB'000<br/>(unaudited)</b>      | <b>RMB'000<br/>(unaudited)</b> |
| <i>Nature of goods and services</i>  |                                     |                                |
| Software business:                   |                                     |                                |
| Software products and services ..... | 977,409                             | 875,401                        |
| Data-driven operation services ..... | 10,350                              | 4,203                          |
| Others <sup>(i)</sup> .....          | 33,999                              | 44,888                         |
| Network security business .....      | <u>4,197</u>                        | <u>42,241</u>                  |
|                                      | <u>1,025,955</u>                    | <u>966,733</u>                 |

Note:

- (i) Others represent revenues primarily generated from the provision of business consulting services and system integration services, the sale of third-party hardware and software and the provision of corporate trainings.

**Information about major customers**

Revenue from customers contributing over 10% of the total revenue of the Group during both periods is as follows:

|                          | <b>Three months ended March 31,</b> |                                |
|--------------------------|-------------------------------------|--------------------------------|
|                          | <b>2018</b>                         | <b>2017</b>                    |
|                          | <b>RMB'000<br/>(unaudited)</b>      | <b>RMB'000<br/>(unaudited)</b> |
| Telecom operator A ..... | 552,799                             | 496,426                        |
| Telecom operator B ..... | 258,412                             | 257,181                        |
| Telecom operator C ..... | <u>182,664</u>                      | <u>185,952</u>                 |

Note: The customers as shown above are at their group level which aggregates the customer's headquarters, provincial, municipal and specialized companies which enters into contract with the Group individually.

**Geographical information**

The Group's operations are in the PRC. All revenue from continuing operations of the Group and non-current assets of the Group are generated from and located in the PRC.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the signing parties of the sales or service contracts. During the three

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months ended March 31, 2018, there were no sales or service contracts with a signing party located outside of the PRC.

**Segment information**

The following is an analysis of the Group’s revenue and results from continuing operations by reportable and operating segments:

| <u>Segment information from continuing operations</u><br><u>Three months ended March 31, 2018</u> | <u>Software<br/>business</u>   | <u>Network<br/>security<br/>business</u> | <u>Total</u>                   |
|---|--------------------------------|--|--------------------------------|
|   | <u>RMB’000<br/>(unaudited)</u> | <u>RMB’000<br/>(unaudited)</u>           | <u>RMB’000<br/>(unaudited)</u> |
| Revenue . . . . .   | 1,021,758                      | 4,197                                    | 1,025,955                      |
| Cost of sales . . . . .   | <u>(736,468)</u>               | <u>(4,114)</u>                           | <u>(740,582)</u>               |
| Gross profit . . . . .  | 285,290                        | 83                                       | 285,373                        |
| Other income . . . . .  | 22,082                         | —  | 22,082                         |
| Other gains and losses . . . . .  | 66,410                         | —  | 66,410                         |
| Selling and marketing expenses . . . . .  | (86,688)                       | —  | (86,688)                       |
| Administrative expenses . . . . .   | (87,451)                       | (36)                                     | (87,487)                       |
| Research and development expenses . . . . .   | (87,752)                       | —  | (87,752)                       |
| Share of results of associates . . . . .  | 443                            | —  | 443                            |
| Finance costs . . . . .   | (19,537)                       | —  | (19,537)                       |
| [REDACTED] . . . . .  | <u>(9,635)</u>                 | <u>—</u>                                 | <u>(9,635)</u>                 |
| Profit before tax . . . . .   | <u>83,162</u>                  | <u>47</u>                                | <u>83,209</u>                  |
|   |                                |  |                                |
| <u>Segment information from continuing operations</u><br><u>Three months ended March 31, 2017</u> | <u>Software<br/>business</u>   | <u>Network<br/>security<br/>business</u> | <u>Total</u>                   |
|   | <u>RMB’000<br/>(unaudited)</u> | <u>RMB’000<br/>(unaudited)</u>           | <u>RMB’000<br/>(unaudited)</u> |
| Revenue . . . . .   | 924,492                        | 42,241                                   | 966,733                        |
| Cost of sales . . . . .   | <u>(709,763)</u>               | <u>(41,397)</u>                          | <u>(751,160)</u>               |
| Gross profit . . . . .  | 214,729                        | 844                                      | 215,573                        |
| Other income . . . . .  | 32,262                         | —  | 32,262                         |
| Other gains and losses . . . . .  | 9,097                          | —  | 9,097                          |
| Selling and marketing expenses . . . . .  | (94,908)                       | —  | (94,908)                       |
| Administrative expenses . . . . .   | (75,620)                       | (43)                                     | (75,663)                       |
| Research and development expenses . . . . .   | (127,585)                      | —  | (127,585)                      |
| Share of results of associates . . . . .  | (231)                          | —  | (231)                          |
| Finance costs . . . . .   | <u>(24,130)</u>                | <u>—</u>                                 | <u>(24,130)</u>                |
| Profit before tax . . . . .   | <u>(66,386)</u>                | <u>801</u>                               | <u>(65,585)</u>                |

The accounting policies of the reportable segments are the same as the Group’s accounting policies adopted in the preparation of the Group’s combined financial statements of the respective reporting period. Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for each of the reporting period.

No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.



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5. OTHER INCOME

Continuing operations

|  | Three months ended March 31, |                        |
|--|------------------------------|------------------------|
|  | 2018                         | 2017                   |
|  | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Government grants .....  | 8,258                        | 20,150                 |
| Income from management support services <sup>(i)</sup> (Note 24) ..... | 1,237                        | 3,184                  |
| Interest income from related parties (Note 24) .....                   | 3,956                        | 4,806                  |
| Interest income from current bank accounts .....                       | 7,594                        | 3,184                  |
| Others .....   | 1,037                        | 938                    |
|  | <u>22,082</u>                | <u>32,262</u>          |

Note:

- (i) Income from management support services represents income generated primarily from the provision of management services in the areas of legal support, human resources and administrations, etc. to the Group's related parties.

6. OTHER GAINS AND LOSSES

Continuing operations

|   | Three months ended March 31, |                        |
|---|------------------------------|------------------------|
|   | 2018                         | 2017                   |
|   | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Exchange gain, net .....                                | 66,149                       | 7,315                  |
| Gain on disposal of property, plant and equipment ..... | 131                          | 265                    |
| Reversal of allowance for trade receivables .....       | 630                          | 406                    |
| Allowance for other receivables .....                   | —                            | (572)                  |
| Allowance for contract assets .....                     | (975)                        | —                      |
| Individual income tax refunds .....                     | —                            | 1,091                  |
| Others .....  | 475                          | 592                    |
|   | <u>66,410</u>                | <u>9,097</u>           |

7. FINANCE COSTS

Continuing operations

|                                   | Three months ended March 31, |                        |
|-----------------------------------|------------------------------|------------------------|
|                                   | 2018                         | 2017                   |
|                                   | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Interest on bank borrowings ..... | 19,537                       | 24,130                 |

8. INCOME TAX EXPENSES

|                                   | Three months ended March 31, |                        |
|-----------------------------------|------------------------------|------------------------|
|                                   | 2018                         | 2017                   |
|                                   | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Current tax:                      |                              |                        |
| Hong Kong Profits Tax             |                              |                        |
| —Current year .....               | 760                          | 21                     |
| PRC enterprise income tax (“EIT”) |                              |                        |
| —Current year .....               | 18,360                       | 33,871                 |
| Deferred tax .....                | <u>(12,813)</u>              | <u>(37,596)</u>        |
|                                   | <u>6,307</u>                 | <u>(3,704)</u>         |

Under the Law of the PRC on enterprise income tax (the “EIT Law”) and implementation regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the three months ended March 31, 2018 and 2017.

The Group’s subsidiaries operating in the PRC are eligible for tax credits of 150% deduction rate on certain research and development expenses for the year ending December 31, 2018 and the year ended December 31, 2017, covering both reporting periods.

During the three months ended March 31, 2018 and 2017, two of the Company’s subsidiaries, including AsiaInfo Technologies (China), Inc. (“AsiaInfo China”) and AsiaInfo Technologies (Nanjing), Inc. (“AsiaInfo Nanjing”), were being recognized as key software enterprises with tax privileges and entitled to a preferential EIT rate of 10%, pursuant to the designation as a key software enterprise within National Programming Layout. Such tax preference was applied and entitled by performing the record filling to the tax authorities on a yearly basis. The directors of the Company consider that AsiaInfo China and AsiaInfo Nanjing will re-apply for an additional year provided their business operations continuing to qualify for being identified as key software enterprises.

According to the relevant tax law in the PRC, dividend distributed to foreign investors out of the profit generated from January 1, 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Detailed Rules for the Implementation of the Regulation.

The Group’s subsidiaries located in Hong Kong are subject to Hong Kong Profits Tax at a rate of 16.5% for the three months ended March 31, 2018 and 2017.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

**9. PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS**

Profit (loss) for the period from continuing operations has been arrived at after charging (crediting) the following items:

|  | <b>Three months ended March 31,</b> |                                |
|--|-------------------------------------|--------------------------------|
|  | <b>2018</b>                         | <b>2017</b>                    |
|  | <b>RMB'000<br/>(unaudited)</b>      | <b>RMB'000<br/>(unaudited)</b> |
| Staff costs, including directors' remuneration                                       |                                     |                                |
| Directors' remuneration . . . . .  | 1,095                               | 1,415                          |
| Employee benefit expenses . . . . .  |                                     |                                |
| Other staff costs (salaries, wages, allowance and bonuses) . . . . .                 | 663,575                             | 685,046                        |
| Contribution to retirement benefits scheme . . . . .                                 | 53,597                              | 54,960                         |
| Share-based compensation expenses . . . . .  | 22,148                              | 6,397                          |
| Total staff costs . . . . .  | 740,415                             | 747,818                        |
| Depreciation of property, plant and equipment . . . . .                              | 6,915                               | 10,774                         |
| Amortization of intangible assets . . . . .  | 9,493                               | 13,473                         |
| Amortization of prepaid lease payments . . . . .                                     | 505                                 | 505                            |
| Cost of inventories recognized as expenses (including in cost of revenues) . . . . . | 8,998                               | 23,418                         |

**10. DISCONTINUED OPERATIONS**

Disposal of business operations

Upon the acquisition of AsiaInfo Big Data in December 2017 as described in note (ii) of the combined statements of changes in equity, which is a business combination under common control, Asiainfo Big Data is regarded as if it has been within the Group throughout the periods. Accordingly, the disposal of AsiaInfo Big Data's E-public Service Business incurred in November 2017 was considered as a discontinued operation of the Group. Such E-public Service Business was disposed of by AsiaInfo Big Data to Guangzhou AsiaInfo Cloud Bigdata Co., Ltd., a related party of the Group, for nil consideration. Through such disposal, substantial business of E-public Service Business was disposed of with several immaterial service contracts completely terminated by the end of March 31, 2018.

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The results of the discontinued E-public Service Business during the reporting periods, which have been included in the condensed combined statements of profit or loss and other comprehensive income, are set out as follows:

|  | Three months ended March 31, |                        |
|--|------------------------------|------------------------|
|  | 2018                         | 2017                   |
|  | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Discontinued E-public Service Business                     |                              |                        |
| Revenue . . . . .  | 986                          | 4,558                  |
| Cost of sales . . . . .                                    | <u>(2,265)</u>               | <u>(8,300)</u>         |
| Gross loss . . . . .                                       | (1,279)                      | (3,742)                |
| Other income . . . . .                                     | —                            | (2,805)                |
| Other losses . . . . .                                     | —                            | (2,621)                |
| Selling and marketing expenses . . . . .                   | —                            | (8,920)                |
| Administrative expenses . . . . .                          | —                            | (1,187)                |
| Research and development expenses . . . . .                | —                            | (7,445)                |
| Share of results of associates . . . . .                   | —                            | 981                    |
| Share of results of joint ventures . . . . .               | —                            | 1,123                  |
| Loss before tax . . . . .                                  | (1,279)                      | (24,616)               |
| Income tax expenses . . . . .                              | —                            | —                      |
| Loss for the period from discontinued operations . . . . . | <u>(1,279)</u>               | <u>(24,616)</u>        |

**11. DIVIDENDS**

In March 2018, AsiaInfo Nanjing, a wholly owned subsidiary of the Group, declared a dividend in an amount of RMB800 million to its parent company AsiaInfo Technologies HK.

Saved as disclosed above, no dividend were paid, declared or proposed by the Company or by entities comprising the Group for the three months ended March 31, 2018 and 2017.

**12. EARNINGS PER SHARE**

No earnings per share information is presented for the purpose of these condensed combined financial statements as such information is not considered meaningful with regard to the Reorganization and the result of the Group for the reporting periods is prepared on a combined basis.

**13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

The total additions to property, plant and equipment were approximately RMB3,914,000 during the three months ended March 31, 2018, among which is primarily due to the purchase of furniture, fixtures and equipment amounted to RMB2,253,000 for the three months ended March 31, 2018.

During the three months ended March 31, 2018 and 2017, the Group disposed of property, plant and equipment with an aggregate carrying amount of RMB2,145,000 and RMB1,097,000 for cash proceeds of RMB2,276,000 and RMB1,362,000, resulting in a gain on disposal of RMB131,000 and RMB265,000, respectively.

**14. GOODWILL**

The goodwill was primarily arisen from the acquisition of Linkage Technologies International Holdings Limited (“Linkage”) on July 1, 2010. The carrying value was RMB1,932,246,000 as at December 31, 2015, 2016 and 2017, which is related to the Group’s software business.

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15. TRADE AND NOTES RECEIVABLES

|  | At March 31,<br>2018   | At December 31,<br>2017 |
|--|------------------------|-------------------------|
|  | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Trade receivables .....                  | 788,062                | 838,890                 |
| Notes receivables .....                  | 15,091                 | 56,638                  |
| Less: allowance for doubtful debts ..... | (8,932)                | (7,083)                 |
|  | <u>794,221</u>         | <u>888,445</u>          |

The Group generally grants credit period of 30 days from the dates of acceptance reports when the Group had the right to consideration becoming unconditional. The extension of credit period to the customers may be granted on a discretionary basis by considering customer type, the current creditworthiness and the customer’s financial condition and payment history with the Group.

Trade receivables relate to a number of independent customers that have a good track record with the Group. The allowance for doubtful debts of the Group is based on the evaluation of collectability and aging analysis of individual trade debts performed by the management. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer.

Notes receivables are bank acceptance notes, which management believes that no allowance is necessary as there is no significant change in credit quality and the balances are considered fully recoverable.

Aging of trade and notes receivables, net of allowance for doubtful debts, based on the dates when the Group has the right to bill, at the end of the reporting period is as follows:

|                     | At March 31,<br>2018   | At December 31,<br>2017 |
|---------------------|------------------------|-------------------------|
|                     | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| 1-30 days .....     | 236,017                | 511,500                 |
| 31-90 days .....    | 170,247                | 184,986                 |
| 91–180 days .....   | 262,914                | 113,042                 |
| 181–365 days .....  | 103,528                | 65,755                  |
| Over 365 days ..... | 21,515                 | 13,162                  |
|                     | <u>794,221</u>         | <u>888,445</u>          |

Trade receivables disclosed below are past due at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because, based on past experience, the directors of the Company are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable and the Group is satisfied with the subsequent settlement. There is no past due for notes receivables.

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Aging of trade receivables that are past due but not impaired is as follows:

|                     | At March 31,<br>2018   | At December 31,<br>2017 |
|---------------------|------------------------|-------------------------|
|                     | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| 1-90 days .....     | 348,934                | 255,585                 |
| 91-180 days .....   | 108,087                | 64,863                  |
| 181-365 days .....  | 67,118                 | 41,893                  |
| Over 365 days ..... | 19,023                 | 6,541                   |
|                     | <u>543,162</u>         | <u>368,882</u>          |

The Group does not hold any collateral over these balances.

Movement in lifetime ECL that has been recognized for trade receivables in accordance with the simplified approach set out in HKFRS 9 for the three months ended March 31, 2018 is as follows:

|  | RMB'000        |
|--|----------------|
| At December 31, 2017 under HKAS 39 .....         | (7,083)        |
| Adjustment upon application of HKFRS 9 .....     | (2,479)        |
| At January 1, 2018—restated .....                | (9,562)        |
| Reversal of allowance on trade receivables ..... | 630            |
| At March 31, 2018 .....                          | <u>(8,932)</u> |

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|  | At March 31,<br>2018   | At December 31,<br>2017 |
|--|------------------------|-------------------------|
|  | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Prepayment of value added tax .....                                  | 111,307                | 92,298                  |
| Prepayment for outsourcing system supporting service .....           | 27,977                 | 27,341                  |
| Prepayment for technical service and telecommunication service ..... | 17,088                 | 18,927                  |
| Project bidding and other deposits .....                             | 6,393                  | 11,249                  |
| Advances to suppliers .....  | 465                    | 2,171                   |
| Deferred [REDACTED] .....  | 6,647                  | 5,026                   |
| Prepaid rental expenses .....  | 7,105                  | 5,592                   |
| Staff advances .....   | 12,015                 | 4,358                   |
| Interest receivable .....  | 7,492                  | 4,135                   |
| Prepaid lease payments .....   | 2,019                  | 2,019                   |
| Employee housing loan .....  | 1,516                  | 1,992                   |
| Others .....   | 3,518                  | 3,537                   |
|  | <u>203,542</u>         | <u>178,645</u>          |
| Less: allowance for other receivables .....                          | (2,144)                | (2,144)                 |
|  | <u>201,398</u>         | <u>176,501</u>          |

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Movements in the allowance for other receivables are as follows:

|   | At March 31,<br>2018   | At December 31,<br>2017 |
|---|------------------------|-------------------------|
|   | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| At beginning of the period/year . . . . .                         | 2,144                  | 1,525                   |
| Reversal (Provision) of allowance for other receivables . . . . . | —                      | 1,123                   |
| Written-off as uncollectible . . . . .                            | —                      | (504)                   |
| At end of the period/year . . . . .                               | <u>2,144</u>           | <u>2,144</u>            |

17. CONTRACT ASSETS AND CONTRACT LIABILITIES

The Group has rights to considerations from customers for the provision of software business and network security business. Contract assets arise when the Group has right to consideration for completion of such services and not yet billed under the relevant contracts, and their rights is conditioned on factors other than passage of time. Any amount previously recognized as a contract assets are transferred to trade receivables when the rights become unconditional. Remaining rights and performance obligations in a particular contract are accounted for and presented on a net basis, as either a contract asset or a contract liability.

|                                     | At March 31,<br>2018   | At December 31,<br>2017 |
|-------------------------------------|------------------------|-------------------------|
|                                     | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Analyzed for reporting purposes as: |                        |                         |
| Contract assets . . . . .           | 1,760,952              | 1,632,039               |
| Contract liabilities . . . . .      | <u>(292,761)</u>       | <u>(387,913)</u>        |

As at March 31, 2018 and December 31, 2017, no retention held by customers. The Group generally provides their customers with one to two years’ assurance-type warranty period free of charge. The warranty period may be extended in respect to certain projects. Prior to the beginning of assurance type warranty period, if the relevant projects have met the requirements in the contract, the customer will provide a final inspection and acceptance certificate and pay the outstanding contract amounts per the terms specified in the contracts upon issuance of the certificate.

Movement in lifetime ECL that has been recognized for contract assets in accordance with the simplified approach set out in HKFRS 9 for the three months ended March 31, 2018 is as follows:

|  | RMB'000         |
|--|-----------------|
| At December 31, 2017 under HKAS 39 . . . . .       | —               |
| Adjustment upon application of HKFRS 9 . . . . .   | (19,641)        |
| At January 1, 2018—restated . . . . .              | (19,641)        |
| Reversal of allowance on contract assets . . . . . | (975)           |
| At March 31, 2018 . . . . .                        | <u>(20,616)</u> |

18. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits represent deposits pledged to banks to secure 1) back to back guarantee provided by a bank in the PRC in respect of an oversea bank borrowing as at March 31, 2018 and



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December 31, 2017, and 2) other short-term bank borrowings, letters of credits, guarantees and facilities of the Group as at March 31, 2018 and December 31, 2017.

Deposits amounting to RMB570,363,000 and RMB537,089,000 have been pledged to secure facilities and other short-term bank borrowings, letters of credits, guarantees as at March 31, 2018 and December 31, 2017, respectively, and are, therefore, classified as current assets. The remaining deposits amounting to RMB517,804,000 and RMB39,669,000 have been pledged for a period longer than one year to secure a short-term bank borrowings based on the bank’s requirement and are therefore classified as non-current assets.

Pledged bank deposits of the Group carry interests at market rates which range 0.3% to 2.8% and 0.3% to 2.1% as at March 31, 2018 and December 31, 2017, respectively.

Bank balances and cash

Bank balances and cash of the Group comprises cash held by the Group and bank balances that bear interest at prevailing market rates, per annum, ranging from 0.3% to 1.55% and 0.3% to 1.55% as at March 31, 2018 and December 31, 2017, respectively.

**19. TRADE AND NOTES PAYABLES**

|                      | At March 31,<br>2018   | At December 31,<br>2017 |
|----------------------|------------------------|-------------------------|
|                      | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Trade payables ..... | 524,859                | 529,808                 |
| Notes payables ..... | 2,692                  | 82,692                  |
|                      | <u>527,551</u>         | <u>612,500</u>          |

Aging analysis of the trade and notes payables at the end of the reporting period is as follows:

|                    | At March 31,<br>2018   | At December 31,<br>2017 |
|--------------------|------------------------|-------------------------|
|                    | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| 1-90 days .....    | 34,619                 | 233,444                 |
| 91-180 days .....  | 158,054                | 84,739                  |
| 181-365 days ..... | 105,047                | 74,079                  |
| 1-2 years .....    | 147,363                | 173,673                 |
| Over 2 years ..... | 82,468                 | 46,565                  |
|                    | <u>527,551</u>         | <u>612,500</u>          |

The average credit period on purchases of goods and services is 90 days. The Group has financial risk management policies in place to ensure that sufficient working capital is maintained to meet its obligations when they fall due.

**20. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES**

Included in other payables, deposits received and accrued expenses as at March 31, 2018 is primarily an amount of RMB160,000,000 payables for the acquisition of the 7.977% non-controlling interest in Beijing AsiaInfo Smart Big Data from the non-controlling shareholders. In March 2018, the Group entered into investment termination agreements with the non-controlling shareholders of Beijing AsiaInfo Smart Big Data to repurchase the equity interests owned by the non-controlling shareholders in an amount of RMB210,000,000, of which RMB160,000,000 was outstanding as at March 31, 2018 and paid in May and June 2018 and RMB50,000,000 was offset with the amount due from one of the non-controlling shareholders.

## 21. BANK BORROWINGS

During the three months ended March 31, 2018, the Group obtained new bank loan facilities of US dollars (“US\$”)160,000,000 (equivalent to RMB1,177,761,000) and drew down the amount of US\$149,800,000 (equivalent to RMB941,957,000) from two oversea banks carrying interests at 3-month LIBOR plus 1.45% per annum for RMB91,000,000 and at 3-month LIBOR plus 1.5% per annum for RMB58,800,000, respectively. The loans are repayable in 12 months. The proceeds were used to refinance the existing offshore loan from an oversea bank.

The Group’s short-term borrowings, long-term borrowings and payables do not contain any financial covenants. As at March 31, 2018 and December 31, 2017, the Group had unutilized committed credit facilities amounting to RMB992,664,000 and RMB1,440,900,000, respectively.

## 22. SHARE CAPITAL

For the purpose of the presentation of the condensed combined statements of financial position, the share capital of the Group represents the share capital of AsiaInfo Technologies HK as at March 31, 2018 prior to the completion of the reorganization.

## 23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed combined financial statements approximate their fair values.

## 24. RELATED PARTY BALANCES AND TRANSACTIONS

### (a) Related parties of the Group

The management of the Group consider that the following entities are related parties of the Group:

| <u>Name</u>  | <u>Relationship</u>                         |
|--|---|
| Skipper Holdings Limited (“Skipper Holdings”)                        | Intermediate holding company of the Company |
| AsiaInfo Holdings, LLC (“AsiaInfo Holdings”)                         | Immediate holding company of the Company    |
| AsiaInfo Cayman Limited  | Entity controlled by Skipper Holdings       |
| AsiaInfo Technologies (Chengdu), Inc. (“AsiaInfo Chengdu”)           | Entity controlled by Skipper Holdings       |
| Beijing AsiaInfo Data Co., Ltd.                                      | Entity controlled by Skipper Holdings       |
| Beijing AsiaInfo Innovation Technologies Limited                     | Entity controlled by Skipper Holdings       |
| AsiaInfo Electronics (Fujian) Technologies Co., Ltd.                 | Entity controlled by Skipper Holdings       |
| Nanjing AsiaInfo Network Technology Co., Ltd.                        | Entity controlled by Skipper Holdings       |
| Beijing AsiaInfo Dataware Technologies, Inc.                         | Entity controlled by Skipper Holdings       |
| AsiaInfo Guangzhou Software International HK                         | Entity controlled by Skipper Holdings       |
| Beijing AsiaInfo (Xintong) Technology, Co., Ltd. (“Beijing Xintong”) | Entity controlled by Skipper Holdings       |
| Nanjing AsiaInfo Information Security Technology Co., Ltd.           | Entity controlled by Skipper Holdings       |
| AsiaInfo Software Limited  | Entity controlled by Skipper Holdings       |
| Skipper Parent (US), LLC   | Entity controlled by Skipper Holdings       |
| AsiaInfo International Co., Ltd.                                     | Entity controlled by Skipper Holdings       |
| AsiaInfo Software (Hong Kong) Co., Ltd.                              | Entity controlled by Skipper Holdings       |
| AsiaInfo Security (Hong Kong) Co., Ltd.                              | Entity controlled by Skipper Holdings       |

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| Name  | Relationship                          |
|---|---------------------------------------|
| AsiaInfo International US Corporation             | Entity controlled by Skipper Holdings |
| Asiainfo Innovation Limited                       | Entity controlled by Skipper Holdings |
| Beijing AsiaInfo Voyager Consulting Co., Ltd.     | Controlled by Dr. Shuning Tian        |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. | Entity controlled by Skipper Holdings |
| Bonson Information Technology Limited             | Entity controlled by Skipper Holdings |

Note:

(i) The English name is for identification purpose only and the official names of the companies are in Chinese.

(b) Amounts due from related parties

The following balances were the amounts due from related parties:

|   | At March 31,<br>2018   | At December 31,<br>2017 |
|---|------------------------|-------------------------|
|   | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| <u>Amounts due from related parties—trade nature</u>    |                        |                         |
| Beijing Xintong .....                                   | 25,750                 | 25,488                  |
| Beijing AsiaInfo Data Co., Ltd. ....                    | 5,812                  | 8,913                   |
| Skipper Parent (US), LLC .....                          | 4,459                  | 4,639                   |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd. .... | 1,809                  | —                       |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....  | 1,078                  | 22,550                  |
| AsiaInfo Chengdu .....                                  | 1,004                  | —                       |
| Skipper Holdings .....                                  | 967                    | 1,006                   |
| Nanjing AsiaInfo Network Technology Co., Ltd. ....      | 818                    | 825                     |
| Beijing AsiaInfo Innovation Technologies Limited .....  | 699                    | —                       |
| AsiaInfo Guangzhou Software .....                       | 383                    | 926                     |
| AsiaInfo Software (Hong Kong) Co., Ltd. ....            | 126                    | 131                     |
| AsiaInfo International Co., Ltd. ....                   | 94                     | 94                      |
| Asiainfo Innovation Limited .....                       | 22                     | 22                      |
| Beijing AsiaInfo Dataware Technology Co., Ltd. ....     | —                      | 1,693                   |
|   | <u>43,021</u>          | <u>66,287</u>           |
|   | At March 31,<br>2018   | At December 31,<br>2017 |
|   | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Analyzed for reporting purpose as:                      |                        |                         |
| Current assets .....                                    | 43,021                 | 66,287                  |
| Non-current assets .....                                | —                      | —                       |
|   | <u>43,021</u>          | <u>66,287</u>           |

The Group generally grants a credit period of 30 days to its related parties. Aging of amounts due from related parties—trade nature, based on the dates when the Group has the right to bill, is as follows:

|                     | At March 31,<br>2018   | At December 31,<br>2017 |
|---------------------|------------------------|-------------------------|
|                     | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| 1-90 days .....     | 5,299                  | 62,918                  |
| 91-180 days .....   | 34,162                 | 786                     |
| 181-365 days .....  | —                      | 529                     |
| Over 365 days ..... | 3,560                  | 2,054                   |
|                     | <u>43,021</u>          | <u>66,287</u>           |

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|  | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|--|--------------------------------|---------------------------------|
|  | <u>RMB'000<br/>(unaudited)</u> | <u>RMB'000<br/>(audited)</u>    |
| Prepayment to related parties                              |                                |                                 |
| AsiaInfo Chengdu . . . . .                                 | 20,022                         | 73,197                          |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd. . . . . | 6,039                          | 4,839                           |
| Beijing AsiaInfo Data Co., Ltd. . . . .                    | 5,748                          | 3,174                           |
| AsiaInfo Guangzhou Software . . . . .                      | 4,429                          | 6,030                           |
| Beijing AsiaInfo Innovation Technologies Limited . . . . . | —                              | 725                             |
|  | <u>36,238</u>                  | <u>87,965</u>                   |
|  |                                |                                 |
|  | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|  | <u>RMB'000<br/>(unaudited)</u> | <u>RMB'000<br/>(audited)</u>    |
| Analyzed for reporting purpose as:                         |                                |                                 |
| Current assets . . . . .                                   | 36,238                         | 87,965                          |
| Non-current assets . . . . .                               | —                              | —                               |
|  | <u>36,238</u>                  | <u>87,965</u>                   |
|  |                                |                                 |
|  | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|  | <u>RMB'000<br/>(unaudited)</u> | <u>RMB'000<br/>(audited)</u>    |
| <u>Amounts due from related parties—non-trade nature</u>   |                                |                                 |
| AsiaInfo Holdings . . . . .                                | 604,744                        | 614,150                         |
| AsiaInfo Cayman Limited . . . . .                          | 36,293                         | 37,559                          |
| Bonson Information Technology Limited . . . . .            | 22,255                         | 23,339                          |
| International HK . . . . .                                 | 6,568                          | 6,484                           |
| AsiaInfo International US Corporation . . . . .            | 3,141                          | 3,267                           |
| AsiaInfo Security (Hong Kong) Co., Ltd. . . . .            | 314                            | 327                             |
| Beijing AsiaInfo Voyager Consulting Co., Ltd. . . . .      | —                              | 50,000                          |
|  | <u>673,315</u>                 | <u>735,126</u>                  |

Note: The balances are all unsecured, interest-free and repayable on demand.

|                                    | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|------------------------------------|--------------------------------|---------------------------------|
|                                    | <u>RMB'000<br/>(unaudited)</u> | <u>RMB'000<br/>(audited)</u>    |
| Analyzed for reporting purpose as: |                                |                                 |
| Current assets . . . . .           | 651,060                        | 97,637                          |
| Non-current assets . . . . .       | 22,255                         | 637,489                         |
|                                    | <u>673,315</u>                 | <u>735,126</u>                  |

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

(c) Amounts due to related parties

The following balances were the amounts due to related parties:

Amounts due to related parties—trade nature

|  | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|--|--------------------------------|---------------------------------|
|  | <b>RMB'000<br/>(unaudited)</b> | <b>RMB'000<br/>(audited)</b>    |
| AsiaInfo Technology (Chengdu) Co., Ltd. . . . .            | 73,942                         | 135,013                         |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd. . . . . | 9,842                          | 6,429                           |
| Beijing AsiaInfo Data Co., Ltd. . . . .                    | 8,943                          | 14,623                          |
| Bonson Information Technology Limited . . . . .            | 5,763                          | 6,088                           |
| AsiaInfo Software Limited . . . . .                        | 5,701                          | 5,930                           |
| Beijing AsiaInfo Innovation Technologies Limited . . . . . | 2,097                          | 5,121                           |
| International HK . . . . .                                 | 79                             | 20                              |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .  | —                              | 18,427                          |
| Beijing AsiaInfo Dataware Technology Co., Ltd. . . . .     | —                              | 861                             |
|  | <u>106,367</u>                 | <u>192,512</u>                  |
|  | <b>At March 31,<br/>2018</b>   | <b>At December 31,<br/>2017</b> |
|  | <b>RMB'000<br/>(unaudited)</b> | <b>RMB'000<br/>(audited)</b>    |
| Analyzed for reporting purpose as:                         |                                |                                 |
| Current liabilities . . . . .                              | 106,367                        | 192,512                         |
| Non-current liabilities . . . . .                          | —                              | —                               |
|  | <u>106,367</u>                 | <u>192,512</u>                  |

The average credit period granted by the related parties is 90 days. Aging of amounts due to related parties—trade nature are as follows:

|                         | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|-------------------------|--------------------------------|---------------------------------|
|                         | <b>RMB'000<br/>(unaudited)</b> | <b>RMB'000<br/>(audited)</b>    |
| 1-90 days . . . . .     | 94,431                         | 142,778                         |
| 91-180 days . . . . .   | 11,936                         | 26,752                          |
| 181-365 days . . . . .  | —                              | —                               |
| Over 365 days . . . . . | —                              | 22,982                          |
|                         | <u>106,367</u>                 | <u>192,512</u>                  |

Amounts due to related parties—non-trade nature

|   | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|---|--------------------------------|---------------------------------|
|   | <b>RMB'000<br/>(unaudited)</b> | <b>RMB'000<br/>(audited)</b>    |
| AsiaInfo Guangzhou Software . . . . .                 | 6,617                          | 14,695                          |
| AsiaInfo Cayman Limited . . . . .                     | 6,253                          | 7,831                           |
| Nanjing AsiaInfo Network Technology Co., Ltd. . . . . | 305                            | 329                             |
|   | <u>13,175</u>                  | <u>22,855</u>                   |

Note: The balances, except for certain related party borrowings, are unsecured, interest free and repayable on demand.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

|                                    | At March 31,<br>2018   | At December 31,<br>2017 |
|------------------------------------|------------------------|-------------------------|
|                                    | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Analyzed for reporting purpose as: |                        |                         |
| Current liabilities .....          | 6,558                  | 8,160                   |
| Non-current liabilities .....      | <u>6,617</u>           | <u>14,695</u>           |
|                                    | <u>13,175</u>          | <u>22,855</u>           |

(d) Transactions with related parties during the current interim period.

During the three months ended March 31, 2018 and 2017, the Group had the following major transactions with related companies, other than those disclosed elsewhere in the condensed combined financial statements:

|   | Three months ended March 31, |                        |
|---|------------------------------|------------------------|
|   | 2018                         | 2017                   |
|   | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Purchase of property, plant and equipment from:                 |                              |                        |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....          | <u>—</u>                     | <u>351</u>             |
| Interest expenses charged by:                                   |                              |                        |
| International HK .....  | <u>—</u>                     | <u>595</u>             |
| Interest income generated from:                                 |                              |                        |
| AsiaInfo Holdings .....   | 3,683                        | 4,020                  |
| Beijing AsiaInfo Data Co., Ltd. ....                            | —                            | —                      |
| Beijing Xintong .....   | 261                          | —                      |
| Nanjing AsiaInfo Information Security Technology Co., Ltd. .... | —                            | 435                    |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....          | —                            | 334                    |
| AsiaInfo Cayman Limited .....                                   | <u>12</u>                    | <u>17</u>              |
|   | <u>3,956</u>                 | <u>4,806</u>           |
| Network security outsourcing service:                           |                              |                        |
| AsiaInfo Technologies (Chengdu), Inc. ....                      | <u>4,114</u>                 | <u>41,396</u>          |
| Technological support services charged by:                      |                              |                        |
| AsiaInfo Technology (Chengdu) Co., Ltd. ....                    | 1,589                        | 5,090                  |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. ....          | —                            | 791                    |
| Beijing AsiaInfo Dataware Technologies, Inc. ....               | <u>—</u>                     | <u>177</u>             |
|   | <u>1,589</u>                 | <u>6,058</u>           |

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

|  | Three months ended March 31, |                        |
|--|------------------------------|------------------------|
|  | 2018                         | 2017                   |
|  | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Subcontract cost from discontinued operations charged by:  |                              |                        |
| Beijing AsiaInfo Data Co., Ltd. . . . .                    | 1,530                        | —                      |
| AsiaInfo Electronics (Fujian) Technology Co., Ltd. . . . . | 22                           | —                      |
| Beijing AsiaInfo Innovation Technologies Limited . . . . . | 713                          | —                      |
|  | <u>2,265</u>                 | <u>—</u>               |
| Technological support services provided to:                |                              |                        |
| AsiaInfo Technologies (Chengdu), Inc. . . . .              | 311                          | 3,044                  |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .  | 193                          | 420                    |
|  | <u>504</u>                   | <u>3,464</u>           |
| Office rental income generated from:                       |                              |                        |
| AsiaInfo Technology (Chengdu) Co., Ltd. . . . .            | 1,008                        | 860                    |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .  | 193                          | 135                    |
| Beijing Dataware . . . . .                                 | —                            | 605                    |
| Beijing AsiaInfo Data Co., Ltd. . . . .                    | 186                          | —                      |
|  | <u>1,387</u>                 | <u>1,600</u>           |
| Management support services income generated from:         |                              |                        |
| Beijing AsiaInfo Data Co., Ltd. . . . .                    | 283                          | —                      |
| AsiaInfo Technology (Chengdu) Co., Ltd. . . . .            | 356                          | 3,184                  |
| AsiaInfo Long Voyage Software (Beijing) Co., Ltd. . . . .  | 598                          | —                      |
|  | <u>1,237</u>                 | <u>3,184</u>           |

(e) Compensation of key management personnel

The remuneration of key management personnel which represent the directors and key executives of the Company during the three months ended March 31, 2018 and the year ended December 31, 2017 were as follows:

|   | Three months ended March 31, |                        |
|---|------------------------------|------------------------|
|   | 2018                         | 2017                   |
|   | RMB'000<br>(unaudited)       | RMB'000<br>(unaudited) |
| Salaries and other benefits . . . . .                 | 1,618                        | 1,005                  |
| Discretionary bonus . . . . .                         | 2,015                        | 3,003                  |
| Contributions to retirement benefits scheme . . . . . | 63                           | 46                     |
| Share-based compensation . . . . .                    | 19,302                       | 112                    |
|   | <u>22,998</u>                | <u>4,166</u>           |

The remuneration of the directors and key executives is determined having regard to the performance of individuals and market trends.

Same as disclosed above, there were no other significant transactions with related parties during the three months ended March 31, 2018 and 2017 or other significant balances with them at the end of the reporting period.

**25. SHARE-BASED PAYMENTS**

The Company does not have its own stock option scheme. The employees of the Company and its subsidiaries are eligible for the 2011 stock incentive plan (the “2011 Plan”) and the 2014 stock



inventive plan (the “2014 Plan”) granted by the Company’s indirect shareholder, AsiaInfo Holdings and the then ultimate holding company, Skipper Holdings, respectively. Accordingly, the Company accounted for such plans by measure the services received from the grantee in accordance with the requirement applicable to equity-settled share-based payment transactions, and recognized a corresponding increase in equity as a contribution from the parent companies in accordance with HKFRS 2 *Share-based Payment*.

***Treasury shares incentive plan***

In preparation of the [REDACTED] and [REDACTED] of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, and in order to provide an incentive to the executive management team of the Company, on March 8, 2018, the board of directors of Skipper Holdings approved a treasury share plan (the “Treasury Shares Incentive Plan”), pursuant to which Skipper Holdings proposed to transfer an aggregate of 335,282 shares at par value of US\$0.0005 each to the grantees, which is held by Skipper Holdings as treasury shares, for nil consideration.

As at March 31, 2018, there were totally 335,282 treasury shares granted to the senior management. The fair value per treasury share is US\$9.10 (equivalent to RMB57.70), which is valued by the Company with the assistance of Duff & Phelps, LLC (“Duff & Phelps”), an independent professional qualified valuer not connected with the Group. The address of Duff & Phelps is Tower 2, China Central Place, 79 Jianguo Road, Chaoyang District, Beijing.

The Company recognized a total share-based compensation expenses of RMB22,148,000 in profit or loss during the three months ended March 31, 2018 in relation to the treasury shares issued.

**26. OPERATING LEASES COMMITMENTS**

At the end of the current interim period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|  | <u>At March 31,<br/>2018</u>   | <u>At December 31,<br/>2017</u> |
|--|--------------------------------|---------------------------------|
|  | <u>RMB’000<br/>(unaudited)</u> | <u>RMB’000<br/>(audited)</u>    |
| Within one year . . . . .                            | 72,096                         | 45,147                          |
| In the second to the fifth year, inclusive . . . . . | 266,668                        | 238,897                         |
| Over five years . . . . .                            | 30,981                         | 91,542                          |
|  | <u>369,745</u>                 | <u>375,586</u>                  |

Operating lease payments represent rentals payable by the Group for certain office properties. Leases are negotiated for lease terms ranging from one year to five years for the Group and rentals are primarily fixed during the lease periods. The operating lease with future minimum lease commitments for over five years relates to an agreement signed on February 6, 2016 with a third party pursuant to which a lease term of five year shall start upon the completion of the construction of the building.

27. COMMITMENTS FOR EXPENDITURE

|   | At March 31,<br>2018   | At December 31,<br>2017 |
|---|------------------------|-------------------------|
|   | RMB'000<br>(unaudited) | RMB'000<br>(audited)    |
| Capital expenditure contracted for but not provided in the condensed combined financial statements in respect of acquisition of property, plant and equipment ..... | <u>17,522</u>          | <u>17,860</u>           |

28. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in the condensed combined financial statements, subsequent to the end of the current interim period, the following significant events took place:

- (a) On April 16, 2018, the par value of the shares of the Company was re-denominated from US\$0.10 per share to HK\$0.0000001 per share and the Company was authorized to issue 100,000,000,000 shares.

On June 26, 2018, the Company allotted and issued 78,043,522 new shares of HK\$0.0000001 par value each to the then existing shareholders of Skipper Holdings in relation to the reorganization and AsiaInfo Holdings surrendered 9,289 shares of HK\$0.0000001 par value each on the same day.

- (b) On June 28, the Company approved and adopted a [REDACTED] share option scheme and a [REDACTED] restricted share award scheme relating to certain outstanding share options and restricted share awards previously granted by AsiaInfo Holdings and Skipper Holdings under the 2011 Plan and the 2014 Plan.

On July 11, 2018, the Company allotted and issued (i) 5,875 shares with a par value of HK\$0.0000001 each to certain grantees for the exercise of 5,875 share options granted under the [REDACTED] share option scheme; and (ii) 466,126 shares to certain restricted share award grantees which are vested immediately upon the grant.

- (c) On May 21, 2018, the board of directors of the Company declared a dividend in an amount of US\$108,000,000 (equivalent to RMB688,684,000) to AsiaInfo Holdings, the then sole shareholder, which is used to offset with the amount due from AsiaInfo Holdings upon the debt restructuring as described below.

On June 25, 2018, a deed of restructuring was signed between the Company and several related parties, through which the amount due from such related parties were all restructured and taken up by amount due from AsiaInfo Holdings.

- (d) [ ]

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the accountants’ report on the historical financial information of the Group for each of the three years ended December 31, 2017 nor the unaudited condensed combined financial statements for the three months ended March 31, 2018 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Company’s reporting accountants, as set out in Appendix I and Appendix IA to this [REDACTED], respectively, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this [REDACTED] and the accountants’ report and the unaudited condensed combined financial statements set out in Appendix I and IA respectively to this [REDACTED].

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company prepared in accordance with paragraph 4.29 of the Listing Rules is set out below to illustrate the effect of the proposed initial [REDACTED] of shares of the Company (the “[REDACTED]”) on the unaudited combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 as if the [REDACTED] had taken place on that date.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 or any future dates following the [REDACTED].

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company is prepared based on the unaudited condensed combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 as derived from the unaudited condensed combined financial statements of the Group, the text of which is set out in Appendix IA to this [REDACTED], and adjusted as described below:

|  | Unaudited<br>combined net<br>tangible assets<br>of the Group<br>attributable to<br>owners of the<br>Company as of<br>March 31, 2018 | [REDACTED]          | Unaudited pro<br>forma adjusted<br>combined net<br>tangible assets of<br>the Group<br>attributable to<br>owners of the<br>Company as of<br>March 31, 2018 | Unaudited pro forma adjusted<br>combined net tangible assets of<br>the Group attributable to owners of<br>the Company per Share as of<br>March 31, 2018 |                  |
|--|---|---------------------|---|---|------------------|
|  | RMB’000<br>(Note 1)   | RMB’000<br>(Note 2) | RMB’000   | RMB<br>(Note 3)   | HK\$<br>(Note 4) |
| Based on an [REDACTED]<br>of HK\$[REDACTED]<br>per Share . . . . . | 911,657   | [REDACTED]          | [REDACTED]  | [REDACTED]  | [REDACTED]       |
| Based on an [REDACTED]<br>of HK\$[REDACTED]<br>per Share . . . . . | 911,657   | [REDACTED]          | [REDACTED]  | [REDACTED]  | [REDACTED]       |

Notes:

- The unaudited combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 is based on the combined net assets of the Group attributable to owners of the Company amounted to RMB2,896,435,000 less goodwill and intangible assets amount to RMB1,932,246,000 and RMB52,532,000 respectively, extracted from the Unaudited Condensed Combined Financial Statements of the Group set out in Appendix IA to this [REDACTED].
- The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] new Shares to be issued at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per new Share, being the lower limit and higher limit of the indicative range of the [REDACTED], respectively, after

deduction of the estimated [REDACTED] (including [REDACTED] and other related expenses) expected to be incurred by the Group subsequent to March 31, 2018 and does not take into account of any Shares which may be issued upon exercise of options that may be granted under the [REDACTED] Share Option Scheme as referred to in the paragraph headed “[REDACTED] Share Option Scheme and [REDACTED] RSA Scheme” under the section headed “Share Capital” to the [REDACTED] or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed “General mandate to issue shares” or “General mandate to repurchase shares” under the section headed “Share Capital” to the [REDACTED], as the case may be. For the purpose of calculating the estimated [REDACTED] from the [REDACTED], the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB0.86566. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 per Share is calculated based on [REDACTED] Shares, being the number of Shares expected to be in issue immediately following the completion of the [REDACTED] and taken into account of the issuance of the ordinary shares as part of the reorganisation for the purpose of the [REDACTED] as set out in Note 2 to the Accountants’ Report in Appendix I to this [REDACTED]. It does not take into account of any Shares which may be issued upon exercise of options that may be granted under the [REDACTED] Share Option Scheme as referred to in the paragraph headed “[REDACTED] Share Option Scheme and [REDACTED] RSA Scheme” under the section headed “Share Capital” to the [REDACTED] or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed “General mandate to issue shares” or “General mandate to repurchase shares” under the section headed “Share Capital” to the [REDACTED], as the case may be.
4. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of RMB0.86566 to HK\$1.00. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
5. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at March 31, 2018 to reflect any operating result or other transactions of the Group entered into subsequent to March 31, 2018.

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**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]

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**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]



**APPENDIX III**

**SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE BRITISH VIRGIN ISLANDS COMPANY LAW**

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*This Appendix contains a summary of the constitution of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this [REDACTED], a copy of the Memorandum and Articles of Association of the Company is available for inspection.*

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the British Virgin Islands company law.

The Company was incorporated in the BVI under the International Business Companies Act (Cap. 291) on July 15, 2003 and was automatically re-registered under the BVI Business Companies Act on January 1, 2007. The Company's constitutional documents consist of the Memorandum and the Articles.

**A. Memorandum of Association**

The Memorandum was filed on [●].

**1. Classes of shares**

The Company is authorized to issue a maximum of [800,000,000,000] shares of a single class with a par value of HK\$[0.000000125].

**2. Capacity and power**

The objects for which the Company is established are unrestricted. The Company shall have full capacity and power to carry out any object not prohibited by the BVI Business Companies Act or any other law of the British Virgin Islands.

**3. Liability of members**

Pursuant to the Memorandum, the liability of each member is limited to:

- (a) the amount from time to time unpaid on such member's shares;
- (b) any liability expressly provided for in the Memorandum or the Articles; and
- (c) any liability to repay a distribution pursuant to section 58(1) of the BVI Business Companies Act.

There is no provision in the Memorandum or the Articles which provides for the increase of a member's liability to the Company.

**4. Rights of shares**

Under the Memorandum, each share confers on the holder:

- (a) the right to one (1) vote on any resolution of members or special resolution of members;
- (b) the right to an equal share in any dividend paid by the Company; and
- (c) the right to an equal share in the distribution of the surplus assets of the Company.

**5. Alteration of Memorandum**

The Company may by a special resolution of members alter its Memorandum with respect to any objects, powers or other matters specified therein.

The Memorandum is available for inspection at the address specified in Appendix V in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

**B. Articles of Association**

The Articles were filed on [●]. A summary of certain provisions of the Articles is set out below.

**1. Shares**

*(a) Variation of rights of existing shares or classes of shares*

If at any time the authorized shares of the Company are divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the BVI Business Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths (3/4) in nominal value of the issued shares of that class or with the sanction of a special resolution of members passed at a separate meeting of the holders of the shares of that class. In each such separate meeting all the provisions of the Articles relating to general meetings shall mutatis mutandis apply, provided that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third (1/3) in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

*(b) Alteration to the number of shares the Company is authorized to issue*

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by resolution of members, increase the maximum number of shares the Company is authorized to issue.

The Company may from time to time by resolution of members cancel any shares which at the date of the passing of the resolution of members have not been taken or agreed to be taken by any person, and diminish the maximum number of shares the Company is authorized to issue by the number of shares so canceled subject to the provisions of the BVI Business Companies Act.

*(c) Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer must be left at the registered office of the Company or at such other place as the Directors may appoint and all such instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless: (i) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) has been paid to the Company; (ii) the instrument of transfer is lodged with the Company accompanied by the certificate of the shares to which it relates (which shall upon registration of the transfer be canceled), and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); (iii) the instrument of transfer is in respect of only one (1) class of shares; (iv) in the case of a transfer to joint holders, the number of joint holders to which the share is to be transferred does not exceed four (4); (v) the shares concerned are free from any lien in favor of the Company; and (vi) if applicable, the instrument of transfer is properly stamped.

If the Directors refuse to register a transfer of any share, they shall, within two (2) months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on no less than ten (10) Business Days' notice (or on six (6) business days' notice in the case of a rights issue) being given by announcement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by resolution of members determine provided that such period shall not be extended beyond 60 days in any year).

*(d) Power of the Company to purchase its own shares*

The Company is empowered by the BVI Business Companies Act and the Articles to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members by resolution of members as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase.

*(e) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

*(f) Calls on shares and forfeiture of shares*

The Directors may, from time to time, make such calls as they think fit upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premiums or otherwise) and not by the conditions of allotment thereof made payable at a fixed time and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 20% per annum, as the Directors may determine, but the Directors may waive payment of such interest in whole or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid, together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not earlier than the expiration of 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which, as at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 20% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any deduction or allowance for the value of the shares forfeited, as at the date of forfeiture.

## 2. Directors

### *(a) Appointment, retirement and removal*

At any time or from time to time, the Directors shall have power to appoint any person as a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company, any Director so appointed as an addition to the board of directors shall hold office only until the next general meeting of the Company, and in each case such Director shall then be eligible for re-election at the relevant meeting.

The Company may by resolution of members remove any Director (including a managing director or other executive director) before the expiration of his period of office notwithstanding anything to the contrary in the Articles or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by resolution of members appoint another person in his stead. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by resolution of members elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company, any Director appointed as an addition to the board shall hold office only until the next following general meeting of the Company and in each case such Director shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at the relevant meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven (7) days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven (7) days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified age limit for Directors.

The office of a Director shall be vacated if:

- (i) he resigns his office by notice in writing to the Company at its registered office or its principal place of business in Hong Kong;
- (ii) an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

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- (iv) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles;
- (vi) he is removed from office by notice in writing served upon him signed by not less than three-fourths (3/4) in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) he shall be removed from office by a resolution of members under the Articles.

At every annual general meeting of the Company one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest to, but not less than, one-third (1/3), shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

*(b) Power to allot and issue shares and warrants*

Subject to the provisions of the BVI Business Companies Act and the Memorandum and the Articles, the unissued shares in the Company (whether forming part of its original or any increased authorized shares) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles and to any direction that may be given by resolution of members and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in relation to dividend, voting, return applicable to shares or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the BVI Business Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution of members, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

*(c) Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities expressly conferred upon them by the Articles, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles or the BVI Business Companies Act expressly directed or required to be exercised or done by resolution of members, subject nevertheless to the provisions of the BVI Business Companies Act and of the Articles and to any regulation from time to time made by resolution of members not being inconsistent with such provisions or the Articles, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.



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*(d) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled amounts owing on the shares in the Company or any part thereof.

*(e) Remuneration*

The Directors shall be entitled to receive, by way of remuneration for their services, such sum as shall from time to time be determined by resolution of members or by the Directors, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred while engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

*(f) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director or past Director is contractually or statutorily entitled) must first be approved by resolution of members.

*(g) Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any



holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(h) Financial assistance to purchase shares*

Subject to all applicable laws, the Company may give, directly or indirectly, by means of a loan, a guarantee, a gift, an indemnity, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company or any company which is its holding company.

*(i) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning any other company in which the Director or his close associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his close associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his close associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his close associates is derived) or of the voting rights;

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- (iv) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or (ii) any of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

**3. Proceedings of the Board**

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world and may determine the quorum necessary for the transaction of business. Regular meetings of the Board shall be held at least four (4) times a year. Questions arising at any meeting of the Directors shall be determined by a majority of votes, and in case of an equality of votes, the chairman of such meeting shall have a second or casting vote. Notwithstanding anything to the contrary in the Articles, the following matters shall be passed by not less than two-thirds (2/3) (including two-thirds (2/3)) of the Directors:

- i. the appointment and dismissal of the chief executive officer of the Company;
- ii. the distribution of dividends; and
- iii. the approval of the Company's strategic planning, material investment and financing decisions, material asset restructuring and affiliated transactions as required by the Listing Rules.

**4. Alterations to the constitutional documents and the Company's name**

No alteration or amendment to the Memorandum or the Articles may be made except by special resolution of members, except the members may from time to time amend the Memorandum or the Articles to increase the maximum number of shares the Company is authorized to issue by resolution of members.

A change of name of the Company shall constitute an amendment of the Memorandum and the Articles, and may only be changed with the sanction of a special resolution of members.

**5. Meetings of members**

*(a) Special resolution and resolution of members*

A "special resolution of members" is defined in the Articles as a resolution passed by a majority of not less than three-fourths (3/4) of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of any member being a corporation, by its duly authorized representative(s) or, where proxies are allowed, by proxy(ies) at a general meeting of which notice specifying the intention to propose the resolution as a special resolution of members has been duly given and includes a special resolution of members approved in writing signed by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution of members so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

A "resolution of members" is defined in the Articles to mean a resolution passed by a simple majority of the votes of the members of the Company as, being entitled to do so, vote in person or, in the case of any member being a corporation, by its duly authorized representative(s) or, where proxies are allowed, by proxy(ies) at a general meeting held in accordance with the Articles and includes a resolution of members approved in writing signed by all the members of the Company aforesaid.

*(b) Voting rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one (1) vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one (1) of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one (1) of such joint holders be present at any meeting personally or by proxy, the person so present being the more or most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

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At any general meeting a resolution put to the vote of the meeting shall be decided on a poll, provided that the chairman of the general meeting may, in good faith, allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one (1) person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to the Articles shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

*(c) Annual general meetings*

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

*(d) Notice of meetings and business to be conducted*

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two (2) or more members deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth (1/10) of the number of issued shares in the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one (1) member which is a recognized clearing house (or its nominee(s)) deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth (1/10) of the number of issued shares in the Company which carries the right of voting at general meetings of the Company.

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. Subject to the requirements under the Listing Rules, the notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place, agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution of members shall specify the intention to propose the resolution as a special resolution of members. Notice of every general meeting shall be

given to the auditors and all members of the Company (other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed: (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or by their proxies; and (ii) in the case of any other meeting, by a majority in number of the members entitled to attend and vote thereat or by their proxies, being a majority together holding not less than 95% in nominal value of the shares having that right.

*(e) Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two (2) members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 1.1(a) above.

*(f) Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote on his behalf and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or such other form that complies with the Listing Rules as the Directors may from time to time approve, provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority on the proxy to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorized in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority, (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

## **6. Accounts and audit**

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the BVI Business Companies Act.

The Directors shall from time to time determine whether, to what extent, at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the BVI Business Companies Act or any other relevant law or regulation or as authorized by the Directors or by the resolution of members.

The Directors shall cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit and loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company may by resolution of members delegate the fixing of such remuneration to the Directors.



**7. Dividends and other methods of distribution**

Subject to the BVI Business Companies Act and Articles, the Directors may, by a resolution passed by not less than two-thirds (2/3) of the Directors, declare a dividend in any currency at a time, and of an amount, and to any members they think fit, if they are satisfied, on reasonable grounds, that immediately after the payment of the dividend, the value of the Company's assets will exceed its liabilities and the Company is able to pay its debts as they fall due.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes, no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company by resolution of members have resolved that a dividend be paid or declared on the shares in the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by resolution of members resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose



name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk. The payment of any such check or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two (2) consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

All dividends or bonuses unclaimed for six (6) years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors, with the sanction of a resolution of members, may direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in relation to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

## **8. Inspection of register of members**

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on no less than ten (10) business days' notice (or on six (6) Business Days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by resolution of members determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members of the Company held in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

**9. Rights of the minorities in relation to fraud or oppression**

There is no provision in the Articles concerning the rights of minority shareholders in relation to fraud or oppression.

**10. Procedure on liquidation**

The Company may, by special resolution of members, approve a liquidation plan and appoint a voluntary liquidator for the voluntary winding up of the Company in accordance with the BVI Business Companies Act.

If the Company shall be wound up, and the assets available for distribution among the members of the Company as such shall be insufficient to repay the whole of the amounts paid up on the issued shares in the Company, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the amounts paid up on the issued shares in the Company, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution among the members of the Company shall be more than sufficient to repay the whole of the amounts paid up on the issued shares in the Company at the commencement of the winding up, the excess shall be distributed among the members of the Company in proportion to the amounts paid up on the issued shares in the Company at the commencement of the winding up on the shares held by them respectively. The foregoing applies without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of members and any other sanction required by the BVI Business Companies Act, divide among the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the BVI Business Companies Act, shall think fit, provided that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

**11. Untraceable members**

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if and provided that: (a) all checks or warrants, not being less than three (3) in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three (3) month period referred to in paragraph (d) below received any indication of the whereabouts or existence of the member of the Company; (c) during the 12 year period, at least three (3) dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member of the Company; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles, giving notice

of its intention to sell such shares, and a period of three (3) months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company, and upon receipt by the Company of such net proceeds it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

## C. BRITISH VIRGIN ISLANDS COMPANY LAW AND TAXATION

The Company operates subject to the laws of the BVI. Set out below is a summary of certain provisions of BVI company law and taxation, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of BVI company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### 1. Incorporation

The Company was incorporated in the BVI under the International Business Companies Act, 1984 and was automatically re-registered under the BVI Business Companies Act on January 1, 2007. On April 16, 2018, the Company filed a notice of election to disapply Part IV of Schedule 2 of the BVI Business Companies Act. The Company is required to pay an annual fee to the Registrar of Corporate Affairs in the BVI which is based on the number of shares the Company is authorized to issue.

### 2. Shares

The concept of share capital does not apply to a BVI Business Company. A company limited by, or otherwise authorized to issue shares, shall state in its memorandum of association the maximum number (or that the company is authorized to issue an unlimited number of shares) and classes of shares that the company is authorized to issue. Companies may also divide their shares (including those shares already in issue) into a larger number of shares or combine them into a smaller number of shares in the same class or series, provided that the maximum number of shares the company is authorized to issue is not exceeded (where relevant). On any such division or combination of shares, the aggregate par value (if any) of the new shares must be equal to the aggregate par value (if any) of the original shares.

The directors of a company may, at their discretion, issue shares in registered or bearer form (although in order to issue bearer shares there must be an express authorization in the memorandum of association of the company and such bearer shares must be held by an approved custodian) for such consideration and on such terms as they may determine.

Shares can be issued for consideration in any form, provided that such consideration is not less than par value where the share is a par value share. Under the BVI Business Companies Act, the liability of a shareholder to the company, as shareholder, is limited to (i) any amount unpaid on a share held by the shareholder; (ii) any liability expressly provided for in the memorandum or articles of the company; and (iii) any liability to repay a distribution under section 58(1) of the BVI Business Companies Act (which relates to the recovery of a distribution made when a company did not satisfy the statutory solvency test).

If so authorized by its memorandum of association, a company can issue more than one class of shares and, if so, the memorandum of association must also specify the rights, privileges, restrictions and conditions which attach to each class of shares.

The BVI Business Companies Act provides that companies may issue redeemable shares, shares with no rights, limited rights or preferential rights to share in distributions, or shares with no or special or limited or conditional voting rights. They may also, subject to their memorandum of association and articles of association, issue bonus shares, partly or nil paid shares, and fractional shares.

The BVI Business Companies Act provides that a company may purchase, redeem or otherwise acquire its own shares, either in accordance with the procedure set out in the BVI Business Companies Act, or any other procedure as provided for in the memorandum of association and articles of association of the company.

Under the provisions in the BVI Business Companies Act, the directors may make an offer for the company to purchase, redeem or otherwise acquire shares in the company, provided that the offer is either (a) to all shareholders and would, if successful, leave the relative voting and distribution rights unaffected, or (b) to one or more shareholders and consented to in writing by all shareholders, or is otherwise permitted by the memorandum of association or articles of association. Where the offer is to one or more shareholders, the directors must pass a resolution to the effect that, in their opinion, the purchase, redemption or other acquisition would benefit the remaining shareholders, and the proposed offer is fair and reasonable to the company and the remaining shareholders.

Where an acquisition by a company of its own shares would be treated as a distribution, the conditions imposed on distributions (as set out in paragraph 3.4 below) must be met. The purchase, redemption or other acquisition by a company of its own shares is not deemed to be a distribution where it is effected pursuant to, inter alia, a right of a shareholder to have his shares redeemed or exchanged for money or other property of the company or where the share is redeemable at the option of the company.

### **3. Financial assistance**

There is no statutory restriction in the BVI on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of due care, skill and diligence that they are acting in good faith, for a proper purpose and in the interests of the company, that such assistance can be given.

### **4. Dividends and distributions**

The directors of a company may only declare a distribution by the company if they are satisfied, on reasonable grounds, that the company will, immediately after the distribution, satisfy the solvency test set out in section 56 of the BVI Business Companies Act. A company satisfies the solvency test if the value of its assets exceeds its liabilities and it is able to pay its debts as they fall due.

### **5. Shareholders' remedies**

The BVI Business Companies Act has introduced a series of remedies available to shareholders. Where a company engages in activity which breaches the BVI Business Companies Act or the company's memorandum of association and articles of association, the court can issue a

restraining or compliance order. Shareholders can also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for shareholders’ remedies has also been incorporated into the BVI Business Companies Act, namely where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminating or unfairly prejudicial to him, he may apply to the court for an order on such conduct.

## 6. Mergers and consolidations

Under the BVI Business Companies Act, two or more companies, each a “constituent company”, may merge or consolidate.

A merger involves merging two or more companies into one of the constituent companies that will remain as the surviving company and a consolidation involves two or more companies consolidating into a new company. Subject to the memorandum of association and articles of association of the company a merger or consolidation must be authorized by a resolution of shareholders of every class of shares entitled to vote on the merger or consolidation.

There are different procedures depending on the type of merger that is taking place. Under the BVI Business Companies Act, a merger may occur between any of the following:

- (i) two or more companies incorporated under the BVI Business Companies Act;
- (ii) one or more companies incorporated under the BVI Business Companies Act and one or more companies incorporated under the laws of a jurisdiction outside the BVI, with the BVI company as the surviving entity;
- (iii) one or more companies incorporated under the BVI Business Companies act and one or more companies incorporated under the laws of a jurisdiction outside the BVI, with the foreign company as the surviving entity;
- (iv) a parent company and one or more of its subsidiaries where the companies are incorporated under the BVI Business Companies Act;
- (v) a parent company and one or more of its subsidiaries where one or more of the companies are incorporated under the BVI Business Companies Act, and one or more companies are incorporated under the laws of a jurisdiction outside the BVI, with the BVI company as the surviving entity; or
- (vi) a parent company and one or more of its subsidiaries where one or more of the companies are incorporated under the BVI Business Companies Act, and one or more companies are incorporated under the laws of a jurisdiction outside the BVI, with the foreign company as the surviving entity.

Under the BVI Business Companies Act, a shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from:

- (i) a merger, if the company is a constituent company, unless the company is the surviving company and the shareholder continues to hold the same or similar shares; or
- (ii) a consolidation, if the company is a constituent company.

The BVI Business Companies Act sets out the procedures that must be followed in effecting dissenters' rights. Ultimately, if the company and the dissenting shareholder fail to agree on the price to be paid for the shares owned by the dissenting shareholder, then the fair value of the shares owned by the dissenting shareholder shall be fixed by the appraisers in accordance with the BVI Business Companies Act.

#### **7. Redemption of minority shares**

Under the BVI Business Companies Act and subject to the memorandum of association or articles of association of a company, shareholders of a company holding 90% of the votes of the outstanding shares entitled to vote; and shareholders of a company holding 90% of the votes of the outstanding shares of each class of shares entitled to vote as a class, may give a written instruction to the company directing it to redeem the shares held by the remaining shareholders. Upon receiving this direction, the company must redeem the shares it has been directed to redeem and must give written notice to each shareholder stating the redemption price and the manner by which the redemption will be effected.

The shareholders having their shares compulsorily redeemed are entitled to receive fair value for their shares and may dissent from the compulsory redemption. The BVI Business Companies Act sets out the procedures that must be followed in effecting dissenters' rights. Ultimately, if the company and the dissenting shareholder fail to agree on the price to be paid for the shares owned by the dissenting shareholder, then the fair value of the shares owned by the dissenting shareholder shall be fixed by the appraisers in accordance with the BVI Business Companies Act.

#### **8. Disposition of assets**

Under the BVI Business Companies Act and subject to the memorandum of association or articles of association of a company, any sale, transfer, lease, exchange or other disposition, other than a mortgage, charge or other encumbrance or the enforcement thereof, of more than 50% in value of the assets of the company, if not made in the usual or regular course of the business carried on by the company, requires the approval of the shareholders.

The BVI Business Companies Act sets out the procedures that must be followed in relation to effecting such a disposal.

#### **9. Accounting and auditing requirements**

The BVI Business Companies Act requires that a company shall cause to be kept proper books of account that (a) are sufficient to show and explain the company's transactions; and (b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

#### **10. Register of shareholders**

Under the BVI Business Companies Act, a company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside of the BVI, as its directors may, from time to time, think fit. However, either the register of members or a copy of the register of members of the company has to be kept at the office of its registered agent in the BVI.



There is no mandatory requirement under the BVI Business Companies Act for a company to make any filings of shareholders' information to the Registrar of Corporate Affairs in the BVI. The names and addresses of the shareholders are, accordingly, not a matter of public record and are not available for public inspection.

#### **11. Inspection of books and records**

Subject to the BVI Business Companies Act, a shareholder of a company will have general right under the BVI Business Companies Act to inspect or obtain copies of the register of members, the register of directors and minutes of meetings and resolutions of members and of those classes of members of which he is a member. However, subject to the company's memorandum of association and articles of association, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a shareholder to inspect any document (or part of a document) refuse to permit the shareholder to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

#### **12. Special resolutions**

The BVI Business Companies Act does not define “special resolution”. However a company's memorandum of association and articles of association may make provisions for varying threshold levels of votes required to pass a resolution and require that certain matters may only be approved if passed by a certain percentage of votes.

#### **13. Subsidiary owning shares in parent**

The BVI Business Companies Act does not prohibit a BVI company acquiring and holding shares in its parent company. The directors of any subsidiary making such acquisition must discharge their duties of care and to act honestly and in good faith and in what the director believes to be in the best interests of the company.

Under the BVI Business Companies Act:

- (i) a director of a company that is a wholly-owned subsidiary may, when exercising powers or performing duties as a director, if expressly permitted to do so by the memorandum of association and articles of association of the company, act in a manner which he believes is in the best interests of that company's holding company even though it may not be in the best interests of the company;
- (ii) a director of a company that is a subsidiary, but not a wholly-owned subsidiary, may, when exercising powers or performing duties as a director, if expressly permitted to do so by the memorandum of association or articles of association of the company and with the prior agreement of the shareholders, other than its holding company, act in a manner which he believes is in the best interests of that company's holding company even though it may not be in the best interests of the company; and
- (iii) a director of a company that is carrying out a joint venture between the shareholders may, when exercising powers or performing duties as a director in connection with the carrying out of the joint venture, if expressly permitted to do so by the memorandum of association or articles of association of the company, act in a manner which he believes is in the best



interests of a shareholder or shareholders, even though it may not be in the best interests of the company.

#### **14. Indemnification**

BVI law in general does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, subject to the conditions set out in the BVI Business Companies Act (for example, the officer or director has acted honestly and in good faith and in what he believed to be in the best interests of the company and, in the case of criminal proceedings, that officer or director had no reasonable cause to believe that his conduct was unlawful).

#### **15. Liquidation**

A company is placed in liquidation either by an order of the court or by a resolution of directors or shareholders. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), to settle the list of creditors and to discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

#### **16. Stamp duty on transfers**

No stamp duty is payable in the BVI on transfers of shares of BVI companies incorporated or registered under the BVI Business Companies Act.

#### **17. Taxation**

Companies incorporated or registered under the BVI Business Companies Act are currently exempt from income and corporate tax. In addition, the BVI currently does not levy capital gains tax on companies incorporated or registered under the BVI Business Companies Act.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the BVI with respect to any shares, debt obligation or other securities of the Company.

#### **18. Exchange controls**

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the BVI.

#### **D. General**

Harney Westwood & Riegels, the Company's legal advisor on BVI law, have sent to the Company a letter of advice summarizing certain aspects of the BVI Business Companies Act. This letter, together with a copy of the BVI Business Companies Act, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of BVI company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR GROUP

### 1. Incorporation of Our Company

We were incorporated in the British Virgin Islands under the laws of the British Virgin Islands as a limited liability company on July 15, 2003. Our Company’s registered office is at Craigmuir Chambers, Road Town, Tortola, VG1110, British Virgin Islands. The Company changed its name from Linkage Technologies Investment Limited to AsiaInfo-Linkage Technologies Investment Limited on October 28, 2010, further changed its name to AsiaInfo Technologies Investment Limited on April 30, 2014, AsiaInfo Technologies Limited (亞信科技有限公司) on June 28, 2018 and further changed its name to AsiaInfo Technologies Limited (亞信科技控股有限公司) on July 10, 2018. A summary of our Articles of Association is set out in the section headed “Summary of the Constitution of Our Company and the British Virgin Islands Company Law” in Appendix III to this [REDACTED].

We have established our principal place of business in Hong Kong at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 8, 2018. In connection with such registration, we have appointed Mr. GAO Nianshu and Ms. YU Wing Sze as the authorized representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

### 2. Changes in the Shares of our Company

As of the date of incorporation of our Company, our Company was authorized to issue 500,000 shares of US\$0.10 each.

The following changes in the Shares of our Company have taken place within two years immediately preceding the date of this [REDACTED]:

On April 16, 2018, the par value of our Shares was re-denominated from US\$0.10 per Share to HK\$0.0000001 per Share. On April 16, 2018, the Company was authorized to issue 100,000,000,000 Shares of HK\$0.0000001 par value each.

On April 29, 2018, AsiaInfo Technologies HK transferred 9,288 Shares of HK\$0.0000001 par value each to AsiaInfo Holdings. On April 30, 2018, the Company allotted and issued 1 Share of HK\$0.0000001 par value to AsiaInfo Holdings.

On June 26, 2018, we allotted and issued 78,043,522 Shares of HK\$0.0000001 par value each to all of the then shareholders of Holdco Cayman. On the same day, AsiaInfo Holdings surrendered 9,289 Shares of HK\$0.0000001 par value each.

On July 11, 2018, we allotted and issued (i) 5,875 Shares of HK\$ 0.0000001 par value each pursuant to the exercise of 5,875 share options granted under the [REDACTED] Share Option Scheme; and (ii) 466,126 Shares of HK\$ 0.0000001 par value each pursuant to the vesting of 466,126 RSAs granted under the [REDACTED] RSA Scheme.

On [●] 2018, each of our issued Share of HK\$0.0000001 par value each was subdivided into [8] Shares of HK\$[0.000000125] par value each. Following the completion of the Share Subdivision, the maximum authorized Shares of our Company are 800,000,000,000 Shares of HK\$[0.000000125] par value each and our total issued Shares increased to 628,124,184 Shares of HK\$[0.000000125] par value each.

Immediately following the completion of the [REDACTED] (but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme), [REDACTED] Shares of HK\$[0.000000125] par value each will be in issue, all fully paid or credited as fully paid and [REDACTED] Shares will remain unissued.

Save as disclosed herein, there has been no alteration in our Company’s authorized and issued Shares and no redemption, repurchase or sale of any of our Shares within two years immediately preceding the date of this [REDACTED].

### 3. Resolutions of our Shareholders

Pursuant to a written shareholders’ resolution of the Company dated [●] 2018,

(a) our Shareholders:

- (i) approved and adopted the Memorandum and the Articles;
- (ii) approved the split and sub-division of each Share in issue with a par value of HK\$0.0000001 held by the persons whose names appear on the register of members of the Company at the close of business on [●] 2018 into [8] Shares with a par value of HK\$[0.000000125];

and authorized the making of the relevant filings with the Registrar of Corporate Affairs in the BVI and thereby give effect to the same upon filing.

(b) conditional upon all the conditions set out in “[REDACTED]” in this [REDACTED] being fulfilled:

- (i) the [REDACTED] and the [REDACTED] were approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit;
- (ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the [REDACTED]; and
- (iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree to the price per [REDACTED] with the [REDACTED].

(c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the [REDACTED] or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme, RSA scheme or similar arrangement which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not exceeding 20% of the number of the Shares in issue

immediately

following completion of the Share Subdivision and the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;

- (d) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the number of the Shares in issue immediately following the completion of the Share Subdivision and the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first; and
- (e) the general mandate mentioned in paragraph (b) above be extended by the addition to the number of the Shares which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by the Company pursuant to the mandate to purchase shares referred to in paragraph (c) above.

#### 4. Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED] of our Shares on the Stock Exchange. See the section headed “History, Development and Reorganization” in this [REDACTED] for information relating to the Reorganization.

#### 5. Changes in the Capital of Our Subsidiaries

Our subsidiaries during the Track Record Period are referred to in the Accountant’s Report set out in Appendix I to this [REDACTED]. The following alterations in the share or registered capital of our subsidiaries have taken place within two years immediately preceding the date of this [REDACTED].

(a) *Guangzhou Zhihui Online*

On October 19, 2016, Guangzhou Zhihui Online was incorporated under the laws of PRC with a registered capital of RMB 10,000,000.

(b) *AsiaInfo Guangzhou Technology*

On August 11, 2017, AsiaInfo Guangzhou Technology was incorporated under the laws of PRC with a registered capital of RMB 200,000,000.

Save as disclosed above, there have been no alterations in the capital of our subsidiaries within the two years immediately preceding the date of this [REDACTED].

## 6. Repurchases of Our Own Securities

### (a) Provisions of the Listing Rules

The Listing Rules permit companies with a [REDACTED] on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

#### (i) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a written shareholder's resolution of the Company dated [●] 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the number of Shares in issue immediately following the completion of the [REDACTED] and the Share Subdivision but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] and any outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

#### (ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws of the BVI and the Listing Rules. A [REDACTED] company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

The Articles and the laws of the BVI provide that our Company may not repurchase its own shares unless (i) the value of our Company's assets exceeds its liabilities, and (ii) our Company is able to pay its debts as they fall due.

#### (iii) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Share Subdivision and the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] and any outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of

Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

*(iv) Status of repurchased Shares*

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be canceled and destroyed.

*(v) Suspension of repurchase*

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

*(vi) Procedural and reporting requirements*

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.



*(vii) Connected parties*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

**(b) *Reasons for repurchases***

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

**(c) *Funding of repurchases***

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the BVI.

On the basis of the current financial position as disclosed in this [REDACTED] and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this [REDACTED]. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the Share Subdivision and the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] and the outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme), could accordingly result in [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of Hong Kong to be held; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting (the “**Relevant Period**”).

**(d) *General***

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong. We have not repurchased any Shares since our incorporation.



If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## **B. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of Material Contracts**





We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this [REDACTED] that are or may be material:

- (a) the shareholders agreement dated June 26, 2018 entered into among Skipper Investment Limited, CA Software Investment Limited, Al Gharrafa Investment Company, Ellington Investments Pte. Ltd., CBC TMT III Limited, InnoValue Capital Ltd., World Sun Global Limited, Hongtao Investment-I Ltd, Zhongjun Wang, Rosehearty Investments LLC, Dr. Tian, PacificInfo Limited, Info Addition Capital Limited Partnership, New Media China Investment I Limited, Mr. Ding, AsiaInfo Resolute Limited I, AsiaInfo Resolute Limited II, and the Company;
- (b) the [REDACTED]; and
- (c) the deed of non-competition dated July 5, 2018 entered into between Skipper Investment Limited and our Company regarding non-competition undertakings given by Skipper Investment Limited in favor of our Company, details of which are set out in the section headed “Relationship with the Controlling Shareholders—Deed of non-competition” in this [REDACTED].







## 2. Intellectual Property Rights of the Group

### (a) Trademarks

As of the Latest Practicable Date, our Group had registered the following trademarks which we consider to be material to our Group’s business:

| Trademark   | Place of registration | Registered owner | Class                 |
|---|-----------------------|------------------|-----------------------|
|  | The PRC               | AsiaInfo China   | 9, 35, 36, 38, 41, 42 |
|  | The PRC               | AsiaInfo China   | 35, 36, 38, 41, 42    |
|  | The PRC               | AsiaInfo China   | 9, 38, 42             |
|  | The PRC               | AsiaInfo China   | 35, 41                |

As of the Latest Practicable Date, our Group had made applications to register the following trademarks which are the subject of pending applications for registration and which we consider to be material to our Group’s business:

| Trademark   | Place of application | Applicant  | Class                     |
|---|----------------------|--|---------------------------|
|  | Hong Kong            | Company<br>AsiaInfo China<br>AsiaInfo<br>Technologies HK | 9, 16, 35, 36, 38, 41, 42 |
|  | The PRC              | AsiaInfo China   | 9, 16, 35, 36, 38, 41, 42 |
|  | The PRC              | AsiaInfo China   | 9, 16, 35, 36, 38, 41, 42 |
|  | The PRC              | AsiaInfo China   | 9, 16, 35, 36, 38, 41, 42 |
|  |                      |  |                           |
|  | Hong Kong            | Company<br>AsiaInfo China<br>AsiaInfo<br>Technologies HK | 9, 16, 35, 36, 38, 41, 42 |

### (b) Domain Names

As of the Latest Practicable Date, our Group had registered the following domain name which we consider to be material to our Group’s business:

| Domain name        | Registered owner | Expiry date   |
|--------------------|------------------|---------------|
| asiainfo.com ..... | AsiaInfo China   | April 2, 2026 |

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(c) *Patents*

As of the Latest Practicable Date, our Group had registered the following patents which we consider to be material to our Group’s business:

| <u>Title</u>  | <u>Place of registration</u> | <u>Registered owner</u> | <u>Expiry date</u> | <u>Registration No.</u>                 |
|---|------------------------------|-------------------------|--------------------|---|
| A system and method for collecting and using user feature data to identify users                  | The PRC                      | AsiaInfo China          | February 2, 2025   | 200510009244.7                          |
| A method for realizing unified interface of multi-protocol messages and related device and system | The PRC                      | AsiaInfo China          | November 22, 2032  | 201210479562.X                          |
| A rule matching method and device based on rule engine  | The PRC                      | AsiaInfo China          | November 30, 2032  | 201210507303.3                          |
| A grid plus T tree index method for quick orientation in massive memory database                  | The PRC                      | AsiaInfo Nanjing        | February 20, 2026  | 200610038378.6                          |
| A general conversion method for heterogeneous service records for data entities                   | The PRC                      | AsiaInfo Nanjing        | July 20, 2027      | 200710025307.7                          |
| A method and system for hierarchically releasing products   | The PRC                      | AsiaInfo Nanjing        | November 3, 2034   | 201410607269.6                          |
| A data packet feature extraction method and device  | The PRC                      | AsiaInfo Nanjing        | March 23, 2035     | 201510129065.0                          |
| A non-blocking update and access method for real-time system parameter data                       | The PRC                      | AsiaInfo Hunan Software | November 20, 2034  | 201410661946.2                          |
| Grid plus T tree index method for quick orientation in massive memory database                    | United States                | AsiaInfo Nanjing        | April 27, 2026     | (PCT) 11380481/7428551<br>US20070198568 |

As of the Latest Practicable Date, our Group had made applications to register the following patents which are the subject of pending applications for registration and which we consider to be material to our Group’s business:

| <u>Title</u>   | <u>Place of application</u> | <u>Applicant</u> | <u>Application date</u> | <u>Application No.</u> |
|--|-----------------------------|------------------|-------------------------|------------------------|
| A method and device for evaluating data information (Previous: Big Data Platform Metadata Management)  | The PRC                     | AsiaInfo China   | December 6, 2016        | 201611207105.X         |
| A method and server for orienting operations that cause data anomalies (Previous: A data pedigree tracking system based on spark real-time flow computing framework) | The PRC                     | AsiaInfo China   | November 17, 2017       | 201711148134.8         |
| A data stream processing method based on data processing center  | The PRC                     | AsiaInfo Nanjing | November 20, 2014       | 201410661945.8         |

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| <u>Title</u>   | <u>Place of application</u> | <u>Applicant</u> | <u>Application date</u> | <u>Application No.</u> |
|--|-----------------------------|------------------|-------------------------|------------------------|
| A signaling number backfill product (Revised as: Method and device for number backfilling) | The PRC                     | AsiaInfo Nanjing | March 31, 2015          | 201510150689.0         |
| A method and device for SaaS   | The PRC                     | AsiaInfo Nanjing | November 2, 2015        | 201510733849.4         |

**(d) Software copyrights**

As of the Latest Practicable Date, our Group had registered the following software copyrights which we consider to be material to our Group’s business:

| <u>Title</u>   | <u>Place of registration</u> | <u>Registered owner</u> | <u>Expiry date</u> | <u>Registration No.</u> |
|--|------------------------------|-------------------------|--------------------|-------------------------|
| AsiaInfo Rule Center Software                                    | The PRC                      | AsiaInfo China          | Unpublished        | 2018SR162906            |
| AsiaInfo Commodity Center Software                               | The PRC                      | AsiaInfo China          | Unpublished        | 2018SR162948            |
| AsiaInfo Resource Center Software                                | The PRC                      | AsiaInfo China          | Unpublished        | 2018SR162958            |
| AsiaInfo Customer Center Software                                | The PRC                      | AsiaInfo China          | Unpublished        | 2018SR163098            |
| AsiaInfo Zhiying Big Data Operation Platform Software            | The PRC                      | AsiaInfo China          | December 31, 2068  | 2018SR175194            |
| AsiaInfo Data Management Platform                                | The PRC                      | AsiaInfo China          | December 21, 2067  | 2018SR181907            |
| AsiaInfo Next-generation Customer Relationship Management System | The PRC                      | AsiaInfo China          | December 31, 2066  | 2016SR230156            |
| AsiaInfo AIF-Infrastructure Foundation Platform                  | The PRC                      | AsiaInfo China          | December 31, 2066  | 2016SR248359            |
| AsiaInfo Cloud Billing System Software                           | The PRC                      | AsiaInfo Nanjing        | December 31, 2067  | 2017SR688997            |

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**C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

**1. Disclosure of Interests**

**(a) *Interests and short positions of the Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations***

Immediately following completion of the Share Subdivision and the [REDACTED] (without taking into account the Shares to be allotted and issued upon the exercise of the [REDACTED]), the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required under Section 352 of the SFO to be entered in the register referred to in that section, or which will be required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“**Model Code**”) once the Shares are [REDACTED], will be as follows:

| <u>Name of Director</u>               | <u>Nature of Interest</u>              | <u>Number of Shares/ underlying Shares upon [REDACTED]</u> | <u>Approximate percentage of shareholding interest upon [REDACTED]</u> |
|---------------------------------------|--|--|--|
| Dr. Tian <sup>(2)</sup> .....         | Beneficial owner (L)                   | [REDACTED]   | [REDACTED]   |
|                                       | Interest in controlled corporation (L) | [REDACTED]   | [REDACTED]   |
|                                       | Interest in controlled corporation (L) | [REDACTED]   | [REDACTED]   |
|                                       | Interest in controlled corporation (L) | [REDACTED]   | [REDACTED]   |
| Mr. DING Jian <sup>(3)</sup> .....    | Beneficial owner (L)                   | [REDACTED]   | [REDACTED]   |
|                                       | Interest in controlled corporation (L) | [REDACTED]   | [REDACTED]   |
| Mr. GAO Nianshu <sup>(4)</sup> .....  | Beneficiary of a trust (L)             | [REDACTED]   | [REDACTED]   |
| Mr. ZHANG Yichen <sup>(5)</sup> ..... | Interest in controlled corporation (L) | [REDACTED]   | [REDACTED]   |

*Notes:*

- (1) The table above is calculated on the basis that a total of [REDACTED] Shares will be in issue immediately after the completion of the Share Subdivision and the [REDACTED] (without taking into account the Shares that may be issued pursuant to (i) the exercise of the [REDACTED], (ii) the exercise of the outstanding share options granted under the [REDACTED] Share Option Scheme, and (iii) the vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme).
- (2) Dr. Tian is the sole shareholder of Info Addition Limited which in turns is the general partner of Info Addition Capital Limited Partnership. As such, Dr. Tian is deemed to be interested in the [REDACTED] Shares in which Info Addition Capital Limited Partnership is interested. Dr. Tian indirectly has full control over CBC Partners II L.P. which is the general partner of China Broadband Capital Partners II, L.P. which in turns is the sole shareholder of CBC TMT III Limited. Therefore, Dr. Tian is deemed to be interested in the [REDACTED] Shares in which CBC TMT III Limited is interested. PacificInfo Limited is wholly owned by Dr. Tian and therefore Dr. Tian is deemed to be interested in [REDACTED] Shares in which PacificInfo Limited is interested.
- (3) New Media China Investment I Limited is wholly owned by Mr. Ding and therefore Mr. Ding is deemed to be interested in the [REDACTED] Shares in which New Media China Investment I Limited is interested.
- (4) These interests comprise (i) [REDACTED] Shares; (ii) [REDACTED] underlying Shares in respect of the outstanding RSAs granted to Mr. Gao under the [REDACTED] RSA Scheme; and (iii) [REDACTED] underlying Shares in respect of the outstanding share options granted to Mr. Gao under the [REDACTED] Share Option Scheme. All of the above interests were held by Trust II on trust for Mr. Gao, who is one of the beneficiaries of Trust II.

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(5) Each of Power Joy (Cayman) Limited (as the controlling shareholder of Skipper Investment Limited), CITIC Capital China Partners II L.P. (as the sole shareholder of Power Joy (Cayman) Limited), CCP II GP, Ltd. (as the general partner of CITIC Capital China Partners II L.P.), CCP LTD (as the general partner of CCP II GP, Ltd.), CITIC Capital Partners Limited (as the sole shareholder of CCP LTD), CITIC Capital Holdings Limited and CP Management Holdings Limited (which hold 51% and 49% shareholding of CITIC Capital Partners Limited, respectively) and Mr. ZHANG Yichen (as the sole shareholder of CP Management Holdings Limited) is deemed or taken to be interested in all the Shares which are beneficially owned by Skipper Investment Limited for the purpose of Part XV of the SFO.

**(b) *Interests and short positions of the Substantial Shareholders in the Shares and underlying shares of our Company***

Save as disclosed in the section headed “Substantial Shareholders” in this [REDACTED], our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are [REDACTED], would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly interested in 10% or more of the issued voting shares of our Company.

**(c) *Interests of the substantial shareholder of any member of our Group (other than our Company)***

So far as our Directors are aware, immediately following the completion of the Share Subdivision and the [REDACTED] (without taking into account the exercise of the [REDACTED]), no person will, directly or indirectly, be interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

**2. Particulars of Service Contracts and Appointment Letters**

**(a) *Executive Directors***

Each of the executive Directors [has] entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from the [REDACTED], which may be terminated by not less than three months’ notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

**(b) *Non-executive Director and Independent Non-executive Directors***

Each of the non-executive Directors and the independent non-executive Directors [has] signed an appointment letter with our Company for a term of one year with effect from the [REDACTED]. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director’s fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

**(c) *Others***

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

- (ii) Certain Directors were also employees of our Group and our Group paid employee emoluments to them in their capacity as employees before and after their respective appointment of Directors in the three years ended December 31, 2015, 2016, 2017 and the three months ended March 31, 2018. During the year ended December 31, 2017, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately RMB21.9 million. Details of the Directors’ remuneration are also set out in note 14 of the Accountant’s Report set out in Appendix I to this [REDACTED]. Save as disclosed in this [REDACTED], no other emoluments have been paid or are payable in respect of the year ended December 31, 2017 by our Company to the Directors.
- (iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind (excluding share options and RSAs that may be granted to the Directors and discretionary bonus) payable to the Directors for the year ending December 31, 2018 is estimated to be approximately RMB2.0 million.
- (iv) None of the Directors or the five highest paid individuals has been paid any sum of money during the Track Record Period as an inducement to join or upon joining our Group. Mr. WU Jun (“**Mr. Wu**”) ceased to be the chief executive officer of the Company in July 2016 and the Director of the Company in May 2017. Mr. Wu was awarded a payment of approximately RMB1.3 million as compensation for loss of employment. Save as Mr. Wu during the Track Record Period, no other compensation was paid by the Group to the Directors or any past directors of any members of the Group for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of the Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits during the Track Record Period.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

### 3. Fees or commissions received

Save as disclosed in this [REDACTED], none of the Directors or any of the persons whose names are listed under the section headed “—G. Other Information—10. Consent of Experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this [REDACTED].

### 4. Miscellaneous

Save as disclosed in this [REDACTED]:

- (a) none of the Directors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into



the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are listed on the Stock Exchange;

- (b) none of our Directors nor any of the parties listed in the section headed “—G. Other Information—10. Consent of Experts” below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this [REDACTED] been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors nor any of the parties listed in the section headed “—G. Other Information—10. Consent of Experts” below is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to the business of our Group taken as a whole;
- (d) other than pursuant to the [REDACTED], none of the parties listed in the section headed “—G. Other Information—10. Consent of Experts” below:
  - (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of our Group.
- (e) Other than AsiaInfo Chengdu, none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our number of issued shares) has any interest in our five largest suppliers or our five largest customers.

#### D. [REDACTED] SHARE OPTION SCHEME

##### Principal Terms of the [REDACTED] Share Option Scheme

The following is a summary of the principal terms of the [REDACTED] Share Option Scheme approved and adopted by our Shareholders on June 26, 2018. The [REDACTED] Share Option Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the [REDACTED] Share Option Scheme does not involve grant of options by our Company to subscribe for Shares after [REDACTED].

##### *(a) Assumption of the Previous Stock Incentive Plan Adopted by Holdco Cayman as the [REDACTED] Share Option Scheme*

To recognize and acknowledge the contributions made by certain of its employees and consultants to the growth of Holdco Cayman, Holdco Cayman had previously adopted certain stock incentive plan (collectively, the “**Previous Stock Incentive Plan**”).

As part of the reorganization, our Company decided to assume the Previous Stock Incentive Plan by the [REDACTED] Share Option Scheme by resolutions in writing of the Shareholders passed on June 26, 2018, and assumed all the rights and obligations under the share options granted by Holdco Cayman under the Previous Stock Incentive Plan, and all share option agreements entered into between Holdco Cayman and the holders of such options (the “**Previous Grantee(s)**”), to the intent and effect that certain share options granted under the Previous Stock Incentive Plan will be valid, binding and enforceable against our Company in accordance with their terms, as if such options had been granted by our Company under the [REDACTED] Share Option Scheme.

*(b) Purpose*

The [REDACTED] Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that Eligible Participants (as defined below) have made to the growth and development of our Group. The [REDACTED] Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives: (i) to motivate the Eligible Participants to optimize their performance and efficiency for the benefit of our Group; (ii) to attract and retain the Eligible Participants whose contributions are, will or expected to be beneficial to our Group; and (iii) to enable the Previous Grantees to directly hold the relevant share options to be granted by our Company as a result of the Reorganization of our Group.

*(c) Who may join*

The eligible participants (collectively the “**Eligible Participants**”) under the [REDACTED] Share Option Scheme include any individual who is (i) an executive, non-executive or independent non-executive director of any member of our Group or any entity which our Group holds an interest; (ii) any full-time or part-time employee of any member of our Group or an affiliate; (iii) the consultant, advisor and independent contractor of any member of our Group or any entity which our Group holds an interest; or (iv) Previous Grantee who satisfies the eligibility criteria.

The eligibility of any of these classes of participants to the grant of any option shall be determined by the Remuneration Committee (as defined below) from time to time on the basis of matters including, but without limitation, to the present contribution and the expected contribution of the relevant Eligible Participants, our Group’s general financial condition, overall business objectives and future development plan.

*(d) Duration and administration*

The [REDACTED] Share Option Scheme shall be valid and effective for a period commencing on the date on which the [REDACTED] Share Option Scheme is adopted by an unanimous written resolutions of the shareholders of our Company and ending on the earlier of (i) 11:59 p.m. on the Business Day immediately before the [REDACTED], or (ii) the date which falls on the tenth (10<sup>th</sup>) anniversary of the adoption date of the [REDACTED] Share Option Scheme, after which no further options will be issued but the provisions of the [REDACTED] Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of this scheme.

The [REDACTED] Share Option Scheme is administered by the Board and/or the remuneration committee established and authorized by the Board to make all determination in respect of the affairs relating to the operation and administration of the [REDACTED] Share Option Scheme (the “**Remuneration Committee**”).

The decision of the Remuneration Committee shall be final and binding on all parties. The Remuneration Committee shall, subject to applicable laws, have the absolute discretion to: (i) interpret and construe the provisions of the [REDACTED] Share Option Scheme; (ii) determine the persons who will be awarded options under the [REDACTED] Share Option Scheme, and the number of Shares under which each option to be awarded and the exercise price; (iii) determine the exercise period and other relevant terms and conditions for each option; (iv) make appropriate and equitable adjustments to the terms of

options granted under the [REDACTED] Share Option Scheme as it deems necessary; (v) adopt rules and regulations for carrying out the [REDACTED] Share Option Scheme; (vi) prescribe the form or forms of instruments to be issued as evidence of any options granted under the [REDACTED] Share Option Scheme; and (vii) make such other decisions or determinations as it shall deem appropriate in the administration of the [REDACTED] Share Option Scheme.

The Remuneration Committee may delegate the responsibility for administering the [REDACTED] Share Option Scheme (such as granting options to designated classes of Eligible Participants and handling the day-to-day operational matters under the [REDACTED] Share Option Scheme) to any senior management of the Company on the terms and the duration as the Remuneration Committee thinks fit, subject to such limitations as the Board deems appropriate.

*(e) Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted and Shares which shall have been issued under options which have been canceled) under the [REDACTED] Share Option Scheme shall be 15,055,107 Shares (being 120,440,856 Shares after taking into account the Share Subdivision), representing approximately [REDACTED] of the then number of issued Shares of our Company immediately after completion of the [REDACTED] of the Shares and any adjustments that the independent financial adviser appointed by our Company shall certify as fair and reasonable.

*(f) Exercise price*

The exercise price per share subject to an option shall be determined by the Remuneration Committee and set forth in the Share Option Grant Letter. The exercise price shall be not less than the par value of the Share underlying such option.

*(g) Time of acceptance and exercise of option*

An offer shall be made to an Eligible Participant in such written form (the “**Share Option Grant Letter**”) as the Remuneration Committee may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period specified in the Share Option Grant Letter. In the event the Eligible Participant does not accept his/her offer within the specified time, the Remuneration Committee may in its absolute discretion extend the period for acceptance of the offer as it thinks fit, provided that the offer shall expire one Business Day before the [REDACTED]. An offer cannot be accepted by an Eligible Participant who ceases to be qualified as an Eligible Participant after the offer has been made. No offer shall be capable of or open for acceptance on or after the [REDACTED]. The Eligible Participant is not required to pay any consideration for accepting the offer.

Except with the consent of the Remuneration Committee, an option shall be personal to the Eligible Participant who accepts the offer (the “**Grantee**”) and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option.

An option may be exercised in whole by the Grantee on or after (but not before) the date on which options are to vest (the “**Vesting Date**”) by giving notice in writing or otherwise by electronic means to the Company (the “**Exercise Notice**”) stating that the option is thereby exercised and the

number of Shares in respect of which it is exercised. Upon written request by the Grantee, the Remuneration Committee may, in its sole and absolute discretion, accept a "cashless exercise" of the options. Where considered appropriate, the Remuneration Committee may also direct a Grantee that the exercise must be conducted in a "cashless exercise" manner. Otherwise, each such Exercise Notice must be accompanied by a remittance for the full amount of the exercise price for the Shares. Any Exercise Notice given without such relevant remittance or confirmation shall be invalid.

Within thirty (30) days (excluding any period(s) of closure of our Company's share registers) after receipt of the Exercise Notice together with remittance of the relevant exercise price in full and, where appropriate, receipt of the independent financial adviser's certificate, relevant number of Shares shall be allotted and issued and a share certificate in respect of the Shares so allotted and issued shall be issued to the Grantee.

An option vested may be exercised by the Grantee at any time during the applicable exercise period, except the following:

- (i) if a general offer is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional (within the meaning of the Takeovers Code), the option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised and to the extent unvested (which shall become vested forthwith)) shall be exercised in full at any time within thirty (30) days after the date on which the offer becomes or is declared unconditional (within the meaning of the Takeovers Code);
- (ii) in the event notice is given by our Company to its shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the Grantee and the Grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option (such notice to be received by our Company not later than thirty (30) days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting) exercise the option (to the extent not already exercised and to the extent unvested (which shall become vested forthwith)) in full and our Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise; and
- (iii) in the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), our Company shall give notice thereof to all Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon the Grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option (such notice to be received by our Company not later than thirty (30) days (excluding any period(s) of closure of the Company's share registers) prior to the proposed meeting) exercise the option (to the extent not already exercised and

to the extent unvested (which shall become vested forthwith)) in full, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective all options shall lapse except insofar as previously exercised under the [REDACTED] Share Option Scheme. Our Company may require the Grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the Grantee in the same position, as nearly as possible, as would have been the case had such Shares been subject to such compromise or arrangement.

Notwithstanding anything in the [REDACTED] Share Option Scheme to the contrary, no option shall be exercisable unless a listing of the Company on any stock exchange occurs or otherwise permitted under the applicable laws as determined by the Remuneration Committee in its sole discretion. In the event the Exercise Period expired before the [REDACTED], the Remuneration Committee may in its absolute discretion extend the exercise period to a date to be determined by the Remuneration Committee.

**(h) Lapse of option**

An option (to the extent that such option has not already been vested) shall lapse and be cancelled on the earliest of:

- (i) the date on which the Grantee who is an employee ceases to be an employee due to:
  - a. any reason other than for Cause (including but without limitation, resignation, laid off, employment contract expires without being renewed due to redundancy, illness, disability and death) (as defined below);
  - b. any reason with Cause, for the purposes of this section, “Cause” shall mean:
    1. dishonesty or serious misconduct, whether or not in connection with his employment; wilful disobedience or non-compliance with the terms of his employment contract with the Company or the relevant subsidiary or their respective affiliates or any lawful orders or instructions given by our Company or the relevant subsidiary or their respective affiliates ; or
    2. incompetence or negligence in the performance of his duties; or
    3. commission of any act or any omission to act which, in the conclusive opinion of the Remuneration Committee, would adversely affect his ability to perform his duties properly or would bring our Company or the relevant subsidiary or their respective affiliates into disrepute; or
    4. any category C violations under the “Labour Disciplinary Penalties Ordinance” (勞動紀律處罰條例) and/or breach of any relevant laws and regulations which render the Grantee unsuitable to be an employee; or
  - c. other reasons as the Board and/or the Remuneration Committee considers fit;
- (ii) the date on which the Grantee fails to meet the performance standard according to the relevant provisions of the Company’s performance appraisal (i.e. obtaining a grade C or below), unless otherwise waived by the Remuneration Committee,



provided that a resolution of the Remuneration Committee to the effect that an Option shall lapse and not be vested on one or more of the grounds as specified in the previous paragraph (h) shall be conclusive and binding on the Grantee.

An option (to the extent that such option has been vested but not yet exercised) shall lapse and not be exercisable on the earliest of:

- (i) the expiry of the exercise period;
- (ii) the expiry of any of the periods referred to in paragraphs (g)(i) and (ii);
- (iii) the date of the commencement of the winding-up of the Company in respect of the situation contemplated in paragraph (g)(iii);
- (iv) the date on which the Grantee fails to meet the performance standard according to the relevant provisions of the Company's performance appraisal (i.e. obtaining a grade C or below), unless otherwise waived by the Remuneration Committee;
- (v) the date on which the Grantee sells, transfers, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any options (except for the transfer of the options to any trustee appointed by the Remuneration Committee in relation to the **[REDACTED]** Share Option Scheme or nominee as such trustee may direct);
- (vi) the date on which the Grantee commits a breach of any terms or conditions attached to the grant of the options, unless otherwise resolved to the contrary by the Remuneration Committee;
- (vii) the date on which the Grantee commits a category C violations under the Labour Disciplinary Penalties Ordinance and/or breach of any relevant laws and regulations which render the Grantee unsuitable to exercise the options; or
- (viii) the date on which the Remuneration Committee resolves that the Grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria as may be prescribed,

provided that a resolution of the Remuneration Committee to the effect that an option shall lapse and not be exercisable on one or more of the grounds as specified in this paragraph (h) shall be conclusive and binding on the Grantee.

Subject to the previous sub-paragraphs, a vested option may be exercised under the following circumstances (regardless of whether such exercise is before or after **[REDACTED]** pursuant to paragraph (g)):

- (i) if the Grantee who is an employee ceases to be an employee due to any reason other than for Cause (such as resignation, laid off and employment contract expires without being renewed due to redundancy), the Grantee shall serve an Exercise Notice to the Company within twenty (20) days after the Grantee ceases to be an employee and the exercise of the options shall be completed within thirty (30) days after the Grantee ceases to be an employee;
- (ii) if the Grantee who is an employee ceases to be an employee due to illness or disability, the Grantee shall serve an Exercise Notice to the Company within eighty (80) days after the Grantee ceases to be an employee and the exercise of the options shall be completed within ninety (90) days after the Grantee ceases to be an employee; and

- (iii) if the Grantee ceases to be an employee due to death, the personal representative of the Grantee shall serve an Exercise Notice to the Company within eighty (80) days after the death of the Grantee and the exercise of the options shall be completed within ninety (90) days after the death of the Grantee.

Notwithstanding the sub-paragraphs above, if the Grantee ceases to be an employee, regardless of whether with or without Cause or for any other reasons (such as organizational transfer to an entity outside of the Group), before any exercise of the options, the Board and/or the Remuneration Committee shall determine at its absolute discretion and shall notify the Grantee whether any unexercised options (regardless of whether the options have been vested) granted to such Grantee shall become capable of being exercised. If the Board determines that such options are capable of being exercised, the Grantee (including his executor/administrator) shall be entitled to exercise the relevant options within the period that may be prescribed by the Board and/or the Remuneration Committee. If the Board and/or the Remuneration Committee determines that no option shall be exercisable or if the Grantee (including his executor/administrator) does not exercise any unexercised options pursuant to the determination of the Board/Remuneration Committee, the relevant options shall be cancelled automatically with effect from the date on which the Grantee's employment is terminated.

**(i) Cancellation**

Any options granted but not exercised may be canceled at any time with the prior approval of the Remuneration Committee or otherwise pursuant to the rules of the [REDACTED] Share Option Scheme.

**Application for [REDACTED]**

Application has been made to the [REDACTED] of the Stock Exchange for [REDACTED] of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which were granted under the [REDACTED] Share Option Scheme.

**Outstanding share options granted under the [REDACTED] Share Option Scheme**

Pursuant to the [REDACTED] Share Option Scheme, on July 11, 2018 and August 1, 2018, we have granted an aggregate of 15,055,107 share options to 2,067 share option grantees, representing rights to subscribe for 15,055,107 Shares (being 120,440,856 Shares after completion of the Share Subdivision). The Company will not grant further share options under the [REDACTED] Share Option Scheme before or after the [REDACTED].

On July 11, 2018, a total of 5,875 Shares (being 47,000 Shares after completion of the Share Subdivision) were issued to certain share option grantees as a result of the exercise of certain share options granted under the [REDACTED] Share Option Scheme.

As of the Latest Practicable Date, the number of Shares underlying the outstanding and unexercised share options granted under the [REDACTED] Share Option Scheme amounts to 15,049,232 Shares (being 120,393,856 Shares after completion of the Share Subdivision) representing approximately [REDACTED] of the issued Shares immediately following completion of the Share Subdivision and the [REDACTED] and assuming the [REDACTED] is not exercised, and the outstanding share options granted under the [REDACTED] Share Option Scheme remain unexercised and the outstanding RSAs granted under the [REDACTED] RSA Scheme remain unvested). Such 15,049,232 share options are held by 2,064 grantees.



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As of the Latest Practicable Date, there are altogether [REDACTED] holders of outstanding share option including one executive Directors of our Company, one director of subsidiaries of the Company, five senior management of our Group and [REDACTED] other employees, ex-employees, consultants and ex-consultants of our Group. Details of the outstanding options granted under the [REDACTED] Share Option Scheme to our Directors, senior management and other connected persons (“**Disclosed Grantees**”), including the vesting date, option period and the exercise price are set out below:

| Name of option holder                                   | Position held within our Group                    | Address  | Grant Date     | Number of Shares underlying the share option <sup>(1)</sup> | Exercise Price <sup>(2)</sup> (US\$) | Vesting Date  | Option Period <sup>(3)</sup> | Approximate percentage of shareholding interest in the Company underlying the outstanding options <sup>(1)</sup> |
|---|---|--|----------------|---|--------------------------------------|---|------------------------------|--|
| <b>(A) Director of our Company<sup>(5)</sup></b>        |   |  |                |   |                                      |   |                              |  |
| Gao Nianshu (高念書) .....                                 | Executive Director and chief executive officer    | Room 422, Building 1 Zhong Shuang Street Zhong Guan Cun, Haidian District, Beijing, PRC    | July 11, 2018  | 400,000   | 1.9225                               | July 11, 2018   | 10 years from the grant date | [REDACTED]   |
|   |   |  |                | 200,000   | 1.9225                               | July 1, 2019  | 10 years from the grant date |  |
|   |   |  |                | 200,000   | 1.9225                               | July 1, 2020  | 10 years from the grant date |  |
|   |   |  | August 1, 2018 | 1,499,328   | 1.2725                               | 30 <sup>th</sup> day after the [REDACTED] (“ <b>First Vesting Date</b> ”) | 10 years from the grant date |  |
|   |   |  |                | 599,728   | 1.2725                               | First anniversary of the First Vesting Date                               | 10 years from the grant date |  |
|   |   |  |                | 899,600   | 1.2725                               | Second anniversary of the First Vesting Date                              | 10 years from the grant date |  |
| <b>(B) Senior management of our Group<sup>(5)</sup></b> |   |  |                |   |                                      |   |                              |  |
| Huang Ying (黃纓) .....                                   | Senior vice president and chief financial officer | 2-301 Zhu Yu Jia Yuan 7 Hao Lou, Shou Ti Nan Lu 9 Hao Yuan, Haidian District, Beijing, PRC | August 1, 2018 | 460,000   | 1.9225                               | First Vesting Date  | 10 years from the grant date | [REDACTED]   |
|   |   |  |                | 184,000   | 1.9225                               | First anniversary of the First Vesting Date                               | 10 years from the grant date |  |
|   |   |  |                | 276,000   | 1.9225                               | Second anniversary of the First Vesting Date                              | 10 years from the grant date |  |
|   |   |  |                | 400,000   | 1.2725                               | First Vesting Date  | 10 years from the grant date |  |
|   |   |  |                | 160,000   | 1.2725                               | First anniversary of the First Vesting Date                               | 10 years from the grant date |  |
|   |   |  |                | 240,000   | 1.2725                               | Second anniversary of the First Vesting Date                              | 10 years from the grant date |  |

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| Name of option holder | Position held within our Group   | Address  | Number of Shares underlying the share option <sup>(1)</sup> |         |        | Exercise Price <sup>(2)</sup> (US\$)         | Vesting Date                 | Option Period <sup>(3)</sup> | Approximate percentage of shareholding interest in the Company underlying the outstanding options <sup>(1)</sup> |
|-----------------------|--|--|---|---------|--------|--|------------------------------|------------------------------|--|
|                       |  |  | Grant Date  |         |        |  |                              |                              |  |
| Chen Wu (陳武)          | Senior vice president, general manager of the business development and government affairs center | 31B Jingsheng Yaju, No.6 Dougezhuangcun, Chaoyang District, Beijing, PRC | July 11, 2018   | 261,448 | 1.9225 | July 11, 2018                                | 10 years from the grant date | [REDACTED]                   |  |
|                       |  |  |   | 54,000  | 1.9225 | June 1, 2019                                 | 10 years from the grant date |                              |  |
|                       |  |  |   | 49,720  | 1.9225 | July 1, 2019                                 | 10 years from the grant date |                              |  |
|                       |  |  |   | 49,736  | 1.9225 | July 1, 2020                                 | 10 years from the grant date |                              |  |
|                       |  |  | August 1, 2018  | 281,200 | 1.9225 | First Vesting Date                           | 10 years from the grant date |                              |  |
|                       |  |  |   | 112,480 | 1.9225 | First anniversary of the First Vesting Date  | 10 years from the grant date |                              |  |
|                       |  |  |   | 168,720 | 1.9225 | Second anniversary of the First Vesting Date | 10 years from the grant date |                              |  |
|                       |  |  |   | 300,000 | 1.2725 | First Vesting Date                           | 10 years from the grant date |                              |  |
|                       |  |  |   | 120,000 | 1.2725 | First anniversary of the First Vesting Date  | 10 years from the grant date |                              |  |
|                       |  |  |   | 180,000 | 1.2725 | Second anniversary of the First Vesting Date | 10 years from the grant date |                              |  |
| Liang Bin (梁斌)        | Vice president, general manager of the business division for China Mobile                        | Room 602, No.41, Ninggong Xinyu, Gulou District, Nanjing, PRC            | July 11, 2018   | 162,000 | 1.9225 | July 11, 2018                                | 10 years from the grant date | [REDACTED]                   |  |
|                       |  |  |   | 54,000  | 1.9225 | June 1, 2019                                 | 10 years from the grant date |                              |  |
|                       |  |  | August 1, 2018  | 532,800 | 1.9225 | First Vesting Date                           | 10 years from the grant date |                              |  |
|                       |  |  |   | 213,120 | 1.9225 | First anniversary of the First Vesting Date  | 10 years from the grant date |                              |  |
|                       |  |  |   | 319,680 | 1.9225 | Second anniversary of the First Vesting Date | 10 years from the grant date |                              |  |
|                       |  |  |   | 320,000 | 1.2725 | First Vesting Date                           | 10 years from the grant date |                              |  |

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| Name of option holder | Position held within our Group   | Address  | Grant Date     | Number of Shares underlying the share option <sup>(1)</sup> | Exercise Price <sup>(2)</sup> (US\$) | Vesting Date                           | Option Period <sup>(3)</sup> | Approximate percentage of shareholding interest in the Company underlying the outstanding options <sup>(1)</sup> |
|-----------------------|--|--|----------------|---|--------------------------------------|--|------------------------------|--|
| Sun Mingjie (孫明潔)     | Vice president and general manager of the operations management center | Room 507, 4, Building 5, No.5 Yuan Da Yuan, Shi Ji Cheng, Haidian District, Beijing, PRC | July 11, 2018  | 222,896   | 1.9225                               | First Vesting Date July 11, 2018       | 10 years from the grant date | [REDACTED]   |
|                       |  |  |                | 128,000   | 1.2725                               | First anniversary of the Vesting Date  | 10 years from the grant date |  |
|                       |  |  |                | 192,000   | 1.2725                               | Second anniversary of the Vesting Date | 10 years from the grant date |  |
|                       |  |  |                | 48,000  | 1.9225                               | June 1, 2019                           | 10 years from the grant date |  |
|                       |  |  |                | 39,448  | 1.9225                               | July 1, 2019                           | 10 years from the grant date |  |
|                       |  |  |                | 39,456  | 1.9225                               | July 1, 2020                           | 10 years from the grant date |  |
|                       |  |  | August 1, 2018 | 370,000   | 1.9225                               | First Vesting Date                     | 10 years from the grant date |  |
|                       |  |  |                | 148,000   | 1.9225                               | First anniversary of the Vesting Date  | 10 years from the grant date |  |
|                       |  |  |                | 222,000   | 1.9225                               | Second anniversary of the Vesting Date | 10 years from the grant date |  |
|                       |  |  |                | 300,000   | 1.2725                               | First Vesting Date                     | 10 years from the grant date |  |
|                       |  |  |                | 120,000   | 1.2725                               | First anniversary of the Vesting Date  | 10 years from the grant date |  |
|                       |  |  |                | 180,000   | 1.2725                               | Second anniversary of the Vesting Date | 10 years from the grant date |  |
|                       |  |  |                | 320,000   | 1.9225                               | First Vesting Date                     | 10 years from the grant date | [REDACTED]   |
| Ouyang Ye (歐陽曄)       | Vice president and chief technology officer                            | 6028, Block 9, No. 31, Xishan Mansion, Dongbeiwang, Haidian District, Beijing, PRC       | August 1, 2018 | 128,000   | 1.9225                               | First anniversary of the Vesting Date  | 10 years from the grant date |  |
|                       |  |  |                | 192,000   | 1.9225                               | Second anniversary of the Vesting Date | 10 years from the grant date |  |
|                       |  |  |                | 80,000  | 1.2725                               | First Vesting Date                     | 10 years from the grant date |  |
|                       |  |  |                | 32,000  | 1.2725                               | First anniversary of the Vesting Date  | 10 years from the grant date |  |
|                       |  |  |                | 48,000  | 1.2725                               | Second anniversary of the Vesting Date | 10 years from the grant date |  |

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| Name of option holder                     | Position held within our Group                  | Address  | Grant Date     | Number of Shares underlying the share option <sup>(1)</sup> | Exercise Price <sup>(2)</sup> (US\$) | Vesting Date                                 | Option Period <sup>(3)</sup> | Approximate percentage of shareholding interest in the Company underlying the outstanding options <sup>(1)</sup> |
|---|---|--|----------------|---|--------------------------------------|--|------------------------------|--|
| (C) Other connected person of our Company |   |  |                |   |                                      |  |                              |  |
| Lv Shousheng (吕守升)                        | Director of certain subsidiaries of our Company | No.9 Ban Chang Hu Tong, Dongcheng District, Beijing, PRC | August 1, 2018 | 460,000   | 1.9225                               | First Vesting Date                           | 10 years from the grant date | [REDACTED]   |
|   |   |  |                | 184,000   | 1.9225                               | First anniversary of the Vesting Date        | 10 years from the grant date |  |
|   |   |  |                | 276,000   | 1.9225                               | Second anniversary of the First Vesting Date | 10 years from the grant date |  |
|   |   |  |                | 300,000   | 1.2725                               | First Vesting Date                           | 10 years from the grant date |  |
|   |   |  |                | 120,000   | 1.2725                               | First anniversary of the Vesting Date        | 10 years from the grant date |  |
|   |   |  |                | 180,000   | 1.2725                               | Second anniversary of the First Vesting Date | 10 years from the grant date |  |

Notes:

- (1) Represents the number of Shares underlying the shares options immediately after the Share Subdivision.
- (2) Represents the exercise price for each of the outstanding share option immediately after the Share Subdivision.
- (3) The exercise of the share options is subject to vesting of the relevant share options and must be within the option period.
- (4) Assuming the completion of the [REDACTED] but without taking into consideration of any exercise of the [REDACTED], the outstanding share options granted under the [REDACTED] Share Option Scheme and the vesting of the outstanding RSAs under the [REDACTED] RSA Scheme.
- (5) Such share options are held on trust for the relevant option grantee by Trust II.

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Details of the outstanding share options under the [REDACTED] Share Option Scheme held by grantees other than the Disclosed Grantees as of the Latest Practicable Date are set out below:

| <u>Exercise Price<sup>1</sup> (US\$)</u> | <u>Number of Shares Underlying the Share Options<sup>2</sup></u> | <u>Grant Date</u> | <u>Vesting Date</u>  | <u>Option Period<sup>3</sup></u> |
|--|--|-------------------|--|----------------------------------|
| 1.13 .....                               | 520,000  | July 11, 2018     | July 11, 2018  | 10 years from the grant date     |
| 0.7925 .....                             | 400,000  | July 11, 2018     | July 11, 2018  | 10 years from the grant date     |
| 0.92375 .....                            | 560,000  | July 11, 2018     | July 11, 2018  | 10 years from the grant date     |
| 0.5525 .....                             | 1,213,800  | July 11, 2018     | July 11, 2018  | 10 years from the grant date     |
| 0.84 .....                               | 64,000   | August 1, 2018    | <ul style="list-style-type: none"> <li>● 50% vested on the 30<sup>th</sup> after the [REDACTED] (“First Vesting Date”)</li> <li>● 20% vested on the first anniversary of the First Vesting Date</li> <li>● 30% vested on the second anniversary of the First Vesting Date</li> </ul> | 10 years from the grant date     |
| 0.5525 .....                             | 25,000   | August 1, 2018    | <ul style="list-style-type: none"> <li>● 50% vested on the First Vesting Date</li> <li>● 20% vested on the first anniversary of the First Vesting Date</li> <li>● 30% vested on the second anniversary of the First Vesting Date</li> </ul>  | 10 years from the grant date     |
| 1.9225 .....                             | 21,149,704   | July 11, 2018     | July 11, 2018  | 10 years from the grant date     |
| 1.9225 .....                             | 5,636,976  | July 11, 2018     | June 1, 2019   | 10 years from the grant date     |
| 1.9225 .....                             | 1,976,008  | July 11, 2018     | July 1, 2019   | 10 years from the grant date     |
| 1.9225 .....                             | 1,976,336  | July 11, 2018     | July 1, 2020   | 10 years from the grant date     |
| 1.9225 .....                             | 25,386,616   | August 1, 2018    | First Vesting Date   | 10 years from the grant date     |
| 1.9225 .....                             | 10,154,136   | August 1, 2018    | First anniversary of the First Vesting Date  | 10 years from the grant date     |
| 1.9225 .....                             | 15,233,024   | August 1, 2018    | Second anniversary of the First Vesting Date   | 10 years from the grant date     |
| 1.2725 .....                             | 11,532,296   | August 1, 2018    | First Vesting Date   | 10 years from the grant date     |

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

| Exercise Price <sup>1</sup> (US\$) | Number of Shares Underlying the Share Options <sup>2</sup> | Grant Date     | Vesting Date                              | Option Period <sup>3</sup>   |
|------------------------------------|--|----------------|---|------------------------------|
| 1.2725 .....                       | 4,610,000  | August 1, 2018 | One anniversary of the First Vesting Date | 10 years from the grant date |
| 1.2725 .....                       | 6,928,600  | August 1, 2018 | Two anniversary of the First Vesting Date | 10 years from the grant date |

Notes:

1. Represents the exercise price for each of the outstanding share option immediately after the Share Subdivision.
2. Represents the number of Shares underlying the shares options immediately after the Share Subdivision.
3. The exercise of the share options is subject to vesting of the relevant share options and must be within the option period.

We [have applied] for, and [have been granted] an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the information of the options granted under the [REDACTED] Share Option Scheme. For further details, please refer to the section headed “Waivers from Strict Compliance with the Requirements under the Listing Rules and Exemption from Companies (Winding Up and Miscellaneous Provisions) Ordinance—Waiver and Exemption in relation to the [REDACTED] Share Option Scheme” in this [REDACTED].

Assuming full exercise of the outstanding share options granted under the [REDACTED] Share Option Scheme (without taking into account any exercise of the [REDACTED] and any Shares to be issued upon vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme), the shareholding of our Shareholders immediately following the [REDACTED] will be diluted by approximately [REDACTED]%. If the outstanding share options granted under the [REDACTED] Share Option Scheme are exercised in full, there would be a dilutive effect on the earnings per Share of our Company. For example, assuming, among others, all outstanding share options for the 15,049,232 share options granted under the [REDACTED] Share Option Scheme were granted and exercised on January 1, 2018, our earnings per Share would decrease from RMB[REDACTED] to RMB[REDACTED], a dilutive effect of RMB[REDACTED] per Share. Please see table below for an explanation of the above illustrated example, however, as the share options are exercisable over a ten-year period, any such dilutive effect on earnings per Share will be staggered over several years.

|   |                         |
|---|-------------------------|
| Profit attributable to the equity holders of the Company for the three months ended March 31, 2018 (thousand) ..... | RMB[76,802]             |
| Unaudited pro forma basic earnings per share for the three months ended March 31, 2018 .....                        | [REDACTED] <sup>1</sup> |
| Unaudited pro forma diluted earnings per share for the three months ended March 31, 2018 .....                      | [REDACTED] <sup>2</sup> |

Notes:

- 1 The calculation of the unaudited pro forma basic earnings per share for the three months ended March 31, 2018 is based on the profit attributable to the equity holders of the Company for the three months ended March 31, 2018 and [REDACTED] Shares being issued assuming the unaudited pro forma and the Share Subdivision were completed on January 1, 2018 (assuming the [REDACTED] is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the [REDACTED] Share Option Scheme, and upon vesting of RSAs granted under the [REDACTED] RSA Scheme)
- 2 The calculation of the unaudited pro forma diluted earnings per share for the three months ended March 31, 2018 is based on the profit attributable to the equity holders of the Company for the three months ended March 31, 2018 and [REDACTED] Shares being issued assuming the [REDACTED] were completed on January 1, 2018 (assuming the [REDACTED] is not exercised, and without taking into account any Shares to be issued upon vesting of RSAs granted under the [REDACTED] RSA Scheme) and the outstanding options for 15,049,232 Shares under the [REDACTED] Share Option Scheme are all granted and exercised on January 1, 2018, without taking into account the related expenses recognized in profit or loss for these share options.

An application has been made to the [REDACTED] for the [REDACTED] of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which were granted pursuant to the [REDACTED] Share Option Scheme.

**E. [REDACTED] RSA SCHEME**

Our Shareholders approved and adopted the [REDACTED] RSA Scheme on June 26, 2018. The [REDACTED] RSA Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the [REDACTED] RSA Scheme does not involve the grant of options by our Company to subscribe for new Shares.

**Principal Terms of the [REDACTED] RSA Scheme**

**(a) Assumption of the Previous Stock Incentive Plan as the [REDACTED] RSA Scheme**

To recognize and acknowledge the contributions made by certain of its employees and consultants to the growth of Holdco Cayman, Holdco Cayman had previously adopted the Previous Stock Incentive Plan (as defined above).

As part of the reorganization, our Company assumed the Previous Stock Incentive Plan as the [REDACTED] RSA Scheme by resolutions in writing of the Shareholders passed on June 26, 2018, and assumed all the rights and obligations under RSAs granted by Holdco Cayman under the Previous Stock Incentive Plan, and all restricted stock unit award agreements entered into between Holdco Cayman and the holders of such RSAs (the “**Previous Holder(s)**”), to the intent and effect that certain RSAs granted under the Previous Stock Incentive Plan will be valid, binding and enforceable against our Company in accordance with their terms, as if such RSAs had been granted by our Company under the [REDACTED] RSA Scheme.

**(b) Purpose of the [REDACTED] RSA Scheme**

The purpose of the [REDACTED] RSA Scheme is to recognize and acknowledge the contributions that RSA Participants (as defined below) have made to the growth and development of our Group.

The [REDACTED] RSA Scheme will provide the RSA Participants with an opportunity to acquire proprietary interests in the Company with the view to achieving the following principal objectives: (i) to motivate the RSA Participants to optimize their performance and efficiency for the benefit of our Group; (ii) to encourage and retain such individuals to work with our Group and provide additional incentive for them to achieve performance goals; and (iii) to enable the Previous Holders to directly hold the relevant RSAs to be granted by our Company as a result of the Reorganization of our Group.

**(c) Who may join**

The eligible participants of the [REDACTED] RSA Scheme (collectively the “**RSA Participants**”) under the [REDACTED] RSA Scheme include any individual who is (i) an executive, non-executive or independent non-executive director of any member of our Group or any entity which our Group holds an interest; (ii) any full-time or part-time employee of any member of our Group or an affiliate; (iii) the consultant, advisor and independent contractor of any member of our Group or any entity which our Group holds an interest; or (iv) Previous Holders who satisfies the eligibility criteria.

The eligibility of any of the RSA Participants to the grant of any RSAs shall be determined by the Remuneration Committee from time to time on the basis of matters including, but without limitation, the present contribution and the expected contribution of the relevant RSA Participants, our Group’s general financial condition, overall business objectives and future development plan.



*(d) Duration and administration*

The [REDACTED] RSA Scheme shall be valid and effective for a period commencing on the date on which the [REDACTED] RSA Scheme is adopted and ending on the earlier of (i) 11:59 p.m. on the Business Day immediately before the [REDACTED], or (ii) the date which falls on the tenth (10th) anniversary of the adoption date of the [REDACTED] RSA Scheme, after which no further RSAs will be issued but the provisions of the [REDACTED] RSA Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any RSAs granted prior thereto or otherwise as may be required in accordance with the provisions of the [REDACTED] RSA Scheme.

The [REDACTED] RSA Scheme shall be subject to the administration of the Remuneration Committee. The Remuneration Committee shall, subject to the applicable laws, have the absolute discretion to: (i) interpret and construe the provisions of the [REDACTED] RSA Scheme; (ii) determine the persons who will be granted the RSAs, the terms and conditions on which the RSAs are granted and the conditions of vesting of such RSAs; (iii) make such appropriate and equitable adjustments to the terms of the RSAs granted under the [REDACTED] RSA Scheme; (iv) adopt rules and regulations for carrying out the [REDACTED] RSA Scheme; (v) prescribe the form or forms of instruments to be issued as evidence of any RSAs granted under the [REDACTED] RSA Scheme; and (vi) make such other decisions or determinations as it shall deem necessary or appropriate in the administration of the [REDACTED] RSA Scheme.

The Remuneration Committee may delegate the responsibility for administering the [REDACTED] RSA Scheme (such as granting RSAs to designated classes of RSA Participants and handling the day-to-day operational matters under the [REDACTED] RSA Scheme) to any senior management of the Company on the terms and the duration as the Remuneration Committee thinks fit, subject to such limitations as the Board deems appropriate.

*(e) Maximum number of Shares available for grant*

The maximum number of Shares in respect of which RSAs may be granted (including Shares in respect of which RSAs, whether vested or still outstanding, have already been granted and Shares which shall have been issued under RSAs which have been canceled) under the [REDACTED] RSA Scheme shall not exceed 2,561,241 (being 20,489,928 Shares after taking into account the Share Subdivision), subject to adjustment as described below) at the date on which the [REDACTED] RSA Scheme is adopted or such other limit as determined by the Remuneration Committee at its sole discretion.

Corresponding adjustments (if any) shall be made in the maximum number of Shares referred to in this paragraph (e) in the event of any alteration of the share structure of the Company while an RSA remains unvested, and such event arises from, including a capitalization of profits or reserves, rights issue, consolidation, increase, subdivision or reduction of the number of shares of the Company.

*(f) Grant of RSAs*

On and subject to the terms of the [REDACTED] RSA Scheme, the Remuneration Committee shall be entitled (but shall not be bound) at any time on a Business Day during the term of the [REDACTED] RSA Scheme commencing on the date on which the [REDACTED] RSA Scheme is adopted and before the [REDACTED], to make a grant to any RSA Participant as the Remuneration Committee may in its absolute discretion select.

The Remuneration Committee shall notify the RSA Participants on the date on which any RSA is granted in writing (the "**RSA Grant Letter**") upon making its grant decision. Upon receipt of the RSA Grant Letter, the RSA Participant is required to confirm his/her acceptance of the grant by returning to our Company a notice of acceptance within the time specified in the RSA Grant Letter after the date on which any RSA is granted (the "**Acceptance Period**"). In the event the RSA Participant does not confirm his/her acceptance within the Acceptance Period, the Remuneration Committee may in its absolute discretion extend the Acceptance Period as it thinks fit, provided that the Acceptance Period shall end no later than one (1) Business Day before the [REDACTED]. No grant can be accepted by an RSA Participant who ceases to be qualified as an RSA Participant after a grant has been made. No grant shall be capable of or open for acceptance on or after the [REDACTED].

A grant shall be deemed to have been accepted when our Company receives the duly signed RSA Grant Letter from the RSA Participant who accepts the grant (the "**RSA Grantee**"). Once accepted, the RSA is deemed to be granted as from the date on which it was offered to the relevant RSA Participants. The RSA Participant is not required to pay any consideration for accepting the grant.

The Remuneration Committee may, on a case-by-case basis and at its discretion when making a grant, impose any vesting conditions, restrictions or limitations in relation to the [REDACTED] RSA Scheme as it may think fit.

**(g) Restrictions and limitations of grants**

Except with the consent of the Remuneration Committee, an RSA shall be personal to the RSA Grantee and shall not be assignable and no RSA Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any RSA.

No instructions may be given by a RSA Participant to the Administrator (as defined below) in respect of the RSAs prior to vesting of the same.

The Board shall not grant any RSA to any RSA Participant in any of the following circumstances: (i) the requisite approvals for such grant from any applicable regulatory authorities have not been obtained; (ii) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSAs or in respect of the [REDACTED] RSA Scheme, unless the Board determines otherwise; (iii) the grant would result in a breach by our Group or any of its Directors or senior management of any applicable laws, regulations or rules; or (iv) the grant would result in breach of the rules of the [REDACTED] RSA Scheme.

**(h) Rights attached to the RSAs**

A RSA Participant shall not have any contingent interest in the RSAs until such RSAs have been vested as Shares. A RSA Grantee shall have no rights in any cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any RSAs granted.

**(i) Vesting**

Subject to the terms of the [REDACTED] RSA Scheme and the specific terms and conditions applicable to each RSA granted, the RSAs granted shall be subject to a vesting period, to the

satisfaction of performance and/or other conditions to be determined by the Board and/or the Remuneration Committee. If such conditions are not satisfied, the RSAs shall be canceled automatically on the date on which such conditions are not satisfied, as determined by the Board and/or the Remuneration Committee in their absolute discretion.

The RSAs which have vested shall be satisfied, at our Company’s absolute discretion, either by:

- (i) the Company allotting and issuing a fully paid-up Share to the RSA Grantee for each RSA. The Company shall accordingly issue to the RSA Grantee (or, as the case may be, his legal representative(s) or its custodian agent) share certificates in respect of Shares so allotted and issued. Any issue of Shares to an RSA Grantee shall be subject to the applicable laws;
- (ii) the Company appointing an administrator to assist with the administration and vesting of the RSAs granted pursuant to the [REDACTED] RSA Scheme (the “Administrator”), pursuant to which the Company may:
  - a. allot and issue Shares to the Administrator to be held by the Administrator pending the vesting of the RSAs granted which will be used to satisfy the RSAs upon vesting at the Company’s direction; and/or
  - b. direct and procure the Administrator to make on-market purchases of Shares to satisfy the RSAs upon vesting at the Company’s direction;
- (iii) directing and procuring the Administrator to transfer the Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSA Grantee from the assets consisting of the Shares acquired by the Administrator under The [REDACTED] RSA Scheme held by the Administrator pursuant to the [REDACTED] RSA Scheme which the Administrator has either acquired by making on-market purchases of Shares or which the Company has allotted and issued to the Administrator as fully paid up Shares; and/or
- (iv) paying, or directing and procuring the Administrator to pay, to the RSA Grantee in cash an amount which is equivalent to the value of the Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) set out in sub-paragraph (iii) above.

**(j) Acceleration of vesting**

The Board has the sole discretion to determine, at any time, whether to accelerate the vesting of any RSAs granted to any RSA Grantee for various considerations as set out below:

**(i) Rights on a takeover**

In the event a general offer by way of takeover, merger or otherwise in a like manner (other than by way of scheme of arrangement as set out in paragraph (b) below) is made to all the holders of Shares (or such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and the general offer to acquire the Shares is approved and becomes or is declared unconditional in all respects prior to the Vesting Date of any RSA, the RSAs of the RSA Grantee(s) will vest immediately to the extent specified in a notice given by the Company.

*(ii) Rights on a scheme of arrangement*

In the event a general offer for Shares by way of scheme of arrangement is made by any person to all the holders of Shares and has been approved by the necessary number of shareholders at the requisite meetings prior to the vesting of any RSA, the RSAs of the RSA Grantee(s) will vest immediately to the extent specified in a notice given by the Company.

*(iii) Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its shareholders and/or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, and a notice is given by the Company to its shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement prior to the vesting of RSAs by the RSA Grantee(s), the RSAs of the RSA Grantee(s) will vest immediately to the extent specified in a notice given by the Company.

*(iv) Rights on a voluntary winding-up*

In the event that an effective resolution is passed during the period of five (5) years commencing on the date on which the [REDACTED] RSA Scheme is adopted for voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement as set out above), prior to the vesting of any RSA, the RSAs of the RSA Grantee(s) will vest immediately to the extent specified in a notice given by the Company provided that all unvested RSAs must be vested and effected by no later than one (1) Business Day before the day of the proposed general meeting to be convened for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company (or to pass written resolutions of the shareholders of the Company to the same effect).

For the avoidance of doubt, provided that the RSAs have been vested and satisfied by either the Company (i) allotting and issuing fully paid-up Shares to the RSA Grantee, or (ii) directing and procuring the Administrator to transfer the Shares to the RSA Grantee, the RSA Grantee's legal and beneficial title on the Shares shall not be affected even if the RSA Grantee ceases to be an employee (for whatever reasons, with or without cause) after the RSAs were vested. If the RSA Grantee dies after the RSAs were vested, the beneficiary or person as the appropriate court directs shall be entitled to the Shares which were issued and allotted/ transferred to the RSA Grantee through vesting of the RSAs pursuant to the relevant probate and inheritance laws.

*(k) Lapse of RSAs*

Any granted RSAs (to the extent that such RSAs have not been vested in the relevant RSA Grantee) shall lapse and be automatically canceled and not vested in the RSA Grantee on the earliest of:

- (i) the date of the commencement of the mandatory winding-up of the Company;
- (ii) the date on which the proposed compromise or arrangement becomes effective;
- (iii) the date on which the RSA Grantee ceases to be an employee due to:
  - a. any reason other than for Cause (including but without limitation, resignation, laid off, employment contract expires without being renewed due to redundancy, illness, disability and death)(as defined above);

- b. any reason with Cause
- (iv) the date on which the RSA Grantee fails to meet the performance standard according to the relevant provisions of the Company's performance appraisal (i.e. obtaining grade C or below), unless otherwise waived by the Board or the Remuneration Committee;
- (v) the date on which the RSA Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favor of any third party over or in relation to any RSA (except for the transfer of the RSAs to any trustee appointed by the Remuneration Committee in relation to the [REDACTED] RSA Scheme or nominee as such trustee may direct);
- (vi) the date on which the RSA Grantee commits a breach of any terms or conditions attached to the grant of the RSAs, unless otherwise resolved to the contrary by the Remuneration Committee; or
- (vii) the date on which the Remuneration Committee resolves that the RSA Grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria as may be prescribed by the Remuneration Committee,

provided that a resolution of the Remuneration Committee to the effect that an RSA shall lapse and not be exercisable on one or more of the grounds as specified in this paragraph(k) shall be conclusive and binding on the RSA Grantee.

Notwithstanding any other provisions in the [REDACTED] RSA Scheme, if the RSA Grantee ceases to be an employee, regardless of whether with or without Cause or for any other reasons (such as organizational transfer to an entity outside of the Group), before any vesting of the RSAs, the Board and/or the Remuneration Committee shall determine at its absolute discretion and shall notify the RSA Grantee whether any unvested RSAs granted to such RSA Grantee shall vest and the period within which such RSAs shall vest. If the Board determines that such RSA shall not vest, such RSAs shall be cancelled automatically with effect from the date on which the RSA Grantee's employment is terminated.

***(l) Reorganization of capital structure***

In the event of any alteration in the capital structure of the Company while an RSA remains unvested, and such event arises from, including a capitalization of profits or reserves, rights issue, consolidation, increase, subdivision or reduction of the Shares of the Company, such corresponding alterations (if any) shall be made in:

- (i) the number or nominal amount of Shares subject to the RSAs so far as unvested; and/or
- (ii) the maximum number of Shares referred to in paragraph(e).

Any adjustments required under this paragraph(l) must give an RSA Grantee the same proportion of the equity capital as that to which that RSA Grantee was previously entitled, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value or (unless with prior approval from the Company's shareholders in general meeting) to the extent that such adjustments are made to the advantage of the RSA Grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalization issue, the independent financial adviser appointed by the Company must confirm to the Directors in writing that the adjustments satisfy the requirements set out in this paragraph(l).

**(m) Alteration of the [REDACTED] RSA Scheme**

The amended terms of the [REDACTED] RSA Scheme must continue to comply with the relevant provisions of the Listing Rules as may be amended from time to time. The Board may at any time alter, amend or modify the terms and conditions of the [REDACTED] RSA Scheme to the extent as considered necessary by the Board.

**(n) Termination and cancellation**

The [REDACTED] RSA Scheme can be terminated or extended by a resolution of the Board. No further RSA shall be granted upon termination.

Any RSA granted but not vested may be canceled at any time with the prior approval of the Remuneration Committee or otherwise pursuant to the rules of the [REDACTED] RSA Scheme.

**Application for [REDACTED]**

An application has been made to the [REDACTED] of the Stock Exchange for the [REDACTED] of, and permission to deal in, new Shares underlying any RSAs which may be granted pursuant to the [REDACTED] RSA Scheme.

**Outstanding RSAs granted under the [REDACTED] RSA Scheme**

Pursuant to the [REDACTED] RSA Scheme, on July 11, 2018 and August 1, 2018, we have granted an aggregate of 2,561,241 RSAs to 969 RSA grantees, representing rights to receive 2,561,241 Shares (being 20,489,928 Shares after completion of the Share Subdivision). The Company will not grant further RSA under the [REDACTED] RSA Scheme before or after the [REDACTED].

On July 11, 2018, a total of 466,126 Shares (being 3,729,008 Shares after completion of the Share Subdivision) were issued to certain RSA grantees as a result of the vesting of certain RSAs granted under the [REDACTED] RSA Scheme.

As of the Latest Practicable Date, the number of Shares underlying the outstanding and unvested RSAs granted under the [REDACTED] RSA Scheme amounts to 2,095,115 Shares (being 16,760,920 Shares after completion of the Share Subdivision), representing approximately [REDACTED] of the issued Shares immediately following completion of the Share Subdivision and the [REDACTED] and assuming the [REDACTED] is not exercised, the outstanding share options granted under the [REDACTED] Share Option Scheme remain unexercised and the outstanding RSAs granted under the [REDACTED] RSA Scheme remain unvested). Such 2,095,115 RSAs are held by 962 grantees.



Assuming full vesting of the outstanding RSAs granted under the [REDACTED] RSA Scheme (assuming the [REDACTED] is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted), the shareholding of our Shareholders immediately following the [REDACTED] will be diluted by approximately [REDACTED]. If the outstanding RSAs granted under the [REDACTED] RSA Scheme are vested, there would be dilutive effect on the earnings per Share of our Company. Please see the table below for an explanation of the above illustrated example.

|   |               |
|---|---------------|
| Profit attributable to the equity holders of the Company for the three months ended March 31, 2018 (thousand) | RMB[76,802]   |
| Unaudited pro forma basic earnings per share for the three months ended March 31, 2018                        | RMB[REDACTED] |
| Unaudited pro forma diluted earnings per share for the three months ended March 31, 2018                      | RMB[REDACTED] |

*Notes:*

- 1 The calculation of the unaudited pro forma basic earnings per share for the three months ended March 31, 2018 is based on the profit attributable to the equity holders of the Company for the three months ended March 31, 2018 and [REDACTED] Shares being issued assuming the [REDACTED] and the Share Subdivision were completed on January 1, 2018 (assuming the [REDACTED] is not exercised, and without taking into account any Shares to be issued upon the exercise of options granted under the [REDACTED] Share Option Scheme, and upon vesting of RSAs granted under the [REDACTED] RSA Scheme)
- 2 The calculation of the unaudited pro forma diluted earnings per share for the three months ended March 31, 2018 is based on the profit attributable to the equity holders of the Company for the three months ended March 31, 2018 and [REDACTED] Shares being issued assuming the [REDACTED] were completed on January 1, 2018 (assuming the [REDACTED] is not exercised, and without taking into account any Shares to be issued pursuant to exercise of share options granted under the [REDACTED] Share Option Scheme) and the RSAs underlying 2,095,115 Shares under the [REDACTED] RSA Scheme are all granted and vested on January 1, 2018, without taking into account the related expenses recognized in profit or loss for these RSAs.

**F. DISCLOSURE UNDER RULE 8.10(2) OF THE LISTING RULES**

Dr. Tian, the chairman and an executive Director of our Company is interested in the International Business which may compete with our business for the purpose of Rule 8.10(2) of the Listing Rules as at the Latest Practicable Date, details of which are set out in the section headed “Directors and Senior Management” of this [REDACTED].

Save and except for Dr. Tian’s interest in the International Business, our Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10(2) of the Listing Rules.

**G. OTHER INFORMATION**

**1. Estate Duty Tax**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Hong Kong, the PRC, the BVI and other jurisdictions in which one or more of the companies comprising our Group are incorporated.

**2. Litigation**

As of the Latest Practicable Date, save as disclosed in this [REDACTED], we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or



any of our Directors that could have a material adverse effect on our financial condition or results of operations.

**3. Application for [REDACTED]**

The Joint Sponsors have made an application on behalf of our Company to the [REDACTED] for the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued or sold as mentioned in this [REDACTED]. All necessary arrangements have been made to enable such Shares into [REDACTED].

**4. No Material Adverse Change**

The Directors confirm that there has been no material change in the financial or trading position or prospects of our Group since December 31, 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

**5. Agency [REDACTED] and [REDACTED] Received**

The [REDACTED] will receive an [REDACTED] as referred to in the section headed “[REDACTED]”.

**6. The Joint Sponsors and Joint Sponsors’ fees**

Citigroup Global Markets Asia Limited is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

CITIC PE Funds Limited which indirectly holds 9.94% shareholding in the Company immediately prior to the [REDACTED] is a close associate of CITIC Securities Co., Ltd., the indirect controlling shareholder of CLSA Capital Markets Limited. Based on the above, CLSA Capital Markets Limited, our other Joint Sponsor, is not expected to be independent pursuant to Rule 3A.07 of the Listing Rules.

The fees payable by the Company to the Joint Sponsors to act as sponsors to the Company in connection with the [REDACTED] is in aggregate US\$1 million.

**7. Preliminary expenses**

Our Company did not incur any material preliminary expense in relation to our incorporation in 2003.

**8. Promoter**

The Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this [REDACTED], within the two years immediately preceding the date of this [REDACTED], no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this [REDACTED].

**9. Qualification of Experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this [REDACTED]:

| <u>Name</u>                                     | <u>Qualification</u>  |
|---|---|
| CLSA Capital Markets Limited . . . .            | Licensed corporation under SFO to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities  |
| Citigroup Global Markets Asia Limited . . . . . | Licensed corporation under SFO to conduct Type 1 (dealing securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities |

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

| <u>Name</u>   | <u>Qualification</u>                                   |
|---|--|
| Deloitte Touche Tohmatsu . . . . .                              | Certified public accountants                           |
| Han Kun Law Offices . . . . .                                   | Company’s PRC legal advisor                            |
| King & Wood Mallesons . . . . .                                 | Company’s PRC legal advisor                            |
| Harney Westwood & Riegels . . . . .                             | Legal advisor to the Company as to the laws of the BVI |
| Frost & Sullivan (Beijing) Inc.,<br>Shanghai Branch Co. . . . . | Independent industry consultants                       |

**10. Consent of Experts**

Each of the above experts has given and has not withdrawn its respective written consent to the issue of this [REDACTED] with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included in this [REDACTED] in the form and context in which it is respectively included.

**11. Binding Effect**

This [REDACTED] shall have the effect, if an application is made in pursuance of this [REDACTED], of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

**12. Reserves available for distribution**

As at March 31, 2018, our Company has reserves of RMB1,064.6 million available for distribution to our Shareholders.

**13. Bilingual [REDACTED]**

The English and Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**H. MISCELLANEOUS**

- (a) Save as disclosed in this [REDACTED], within the two years immediately preceding the date of this [REDACTED]:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
  - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

- (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.
- (b) Save as disclosed in this [REDACTED], our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Save as disclosed in this [REDACTED], our Directors confirm that:
  - (i) there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared);
  - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
  - (iii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this [REDACTED].
- (d) The principal register of members of our Company will be maintained by [REDACTED] and our Hong Kong register of members will be maintained by [REDACTED] in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in Cayman Islands.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into [REDACTED] for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) The English and Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX V**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this [REDACTED] and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the [REDACTED] and [REDACTED];
- (b) a copy of each of the material contracts referred to the section headed “Statutory and General Information—B. Further Information About Our Business—1. Summary of Material Contracts” in Appendix IV to this [REDACTED]; and
- (c) the written consents referred to in the section headed “Statutory and General Information—G. Other Information—10. Consent of Experts” in Appendix IV to this [REDACTED].

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Cleary Gottlieb Steen & Hamilton (Hong Kong), 37th Floor, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this [REDACTED]:

- (a) the Memorandum and the Articles of Association of our Company;
- (b) the Accountants’ Report, the Condensed Combined Financial Statements and the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I, IA and II to this [REDACTED];
- (c) the audited combined financial statements of our Group for the three years ended December 31, 2015, 2016 and 2017 and the unaudited combined financial statements of our Group for the three months ended March 31, 2018;
- (d) the legal opinions issued by Han Kun Law Offices, our PRC Legal Advisor, dated [●] in respect of certain aspects of the Group and the property interests of the Group;
- (e) the legal opinions issued by King & Wood Mallesons, our PRC legal advisor, dated [●] in respect of certain legal proceedings that our Group was involved in.
- (f) the industry report prepared by Frost & Sullivan;
- (g) the letter prepared by Harney Westwood & Riegels summarizing certain aspects of the BVI Business Companies Act referred to in Appendix III to this [REDACTED];
- (h) the BVI Companies Act;
- (i) the material contracts referred to the section headed “Statutory and General Information—B. Further Information About Our Business—1. Summary of Material Contracts” in Appendix IV to this [REDACTED];
- (j) the written consents referred to in the section headed “Statutory and General Information—G. Other Information—10. Consent of Experts” in Appendix IV to this [REDACTED];
- (k) service contracts and letters of appointment referred to in the section headed “Statutory and General Information—C. Further Information about Our Directors and Substantial Shareholders—2. Particulars of Service Contracts and Appointment Letters” in Appendix IV to this [REDACTED];

**APPENDIX V**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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- (l) the **[REDACTED]** Share Option Scheme; and
- (m) the full list of all the grantees of the outstanding share options to subscribe for Shares under the **[REDACTED]** Share Option Scheme, containing all the details as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance.