



# Huifu Payment Limited

—— 汇付天下有限公司 ——

(Incorporated in the Cayman Islands with limited liability under the names of Huifu Limited and 汇付天下有限公司)

Stock Code: 1806

## GLOBAL OFFERING

Joint Sponsors



J.P.Morgan

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



## IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



# HUIFU PAYMENT LIMITED 汇付天下有限公司

(Incorporated in the Cayman Islands with limited liability under the names of  
Huifu Limited and 汇付天下有限公司)

<b>Number of Offer Shares under the Global Offering</b>	<b>: 225,263,600 Shares (subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 22,526,400 Shares (subject to reallocation)</b>
<b>Number of International Offer Shares</b>	<b>: 202,737,200 Shares (subject to reallocation and the Over-allotment Option)</b>
<b>Maximum Offer Price</b>	<b>: HK\$8.50 per Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)</b>
<b>Nominal value</b>	<b>: HK\$0.0001 per Share</b>
<b>Stock code</b>	<b>: 1806</b>

### Joint Sponsors



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix V to this prospectus, 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 and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, June 7, 2018 and, in any event, not later than Thursday, June 14, 2018 (Hong Kong time). The Offer Price will be not more than HK\$8.50 and is currently expected to be not less than HK\$6.50. If, for any reason, the Offer Price is not agreed by Thursday, June 14, 2018 (Hong Kong time) between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us, the Global Offering will not proceed and will lapse.

**The Joint Global Coordinators, on behalf of the Underwriters, and with our consent may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range that is stated in this prospectus (which is HK\$6.50 to HK\$8.50) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published on the website of our Company at [www.huifu.com](http://www.huifu.com) and on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Further details are set forth in “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus.**

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed “Risk Factors” in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See “Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination” of this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may be offered and sold only (a) in the United States to “Qualified Institutional Buyers” in reliance on Rule 144A under the U.S. Securities Act or another exemption from, or in a transaction not subject to, registration under the U.S. Securities Act and (b) outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

June 1, 2018

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Hong Kong Public Offering commences and <b>WHITE</b> and <b>YELLOW</b> Application Forms available from .....	9:00 a.m. on Friday, June 1, 2018
Latest time for completing electronic applications under the <b>White Form eIPO</b> service through the designated website at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Wednesday, June 6, 2018
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Wednesday, June 6, 2018
Latest time for (a) lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms, (b) completing payment for <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (c) giving <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Wednesday, June 6, 2018
Application lists close <sup>(3)</sup> .....	12:00 noon on Wednesday, June 6, 2018
Expected Price Determination Date .....	Thursday, June 7, 2018
Announcement of (1) the Offer Price, (2) the level of indications of interest in the International Offering, (3) the level of applications in the Hong Kong Public Offering and (4) the basis of allocations of the Hong Kong Offer Shares to be published on the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <sup>(5)</sup> and the Company's website at <a href="http://www.huifu.com">www.huifu.com</a> <sup>(6)</sup> on or before .....	Thursday, June 14, 2018
An announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (including the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and the Company's website at <a href="http://www.huifu.com">www.huifu.com</a> ) (see "How to Apply for Hong Kong Offer Shares—A. Applications for Hong Kong Offer Shares—11. Publication of results") from .....	Thursday, June 14, 2018
Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before <sup>(7)</sup> .....	Thursday, June 14, 2018
White Form e-Refund payment instructions/refund checks in respect of wholly or partially unsuccessfully applications to be despatched on or before <sup>(7)</sup> .....	Thursday, June 14, 2018
Dealings in the Shares on the Stock Exchange expected to commence at 9.00 a.m. on .....	Friday, June 15, 2018

(1) All dates and times refer to Hong Kong dates and times.

(2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, June 6, 2018, the application lists will not open and close on that day. See "How to Apply for Hong Kong Offer Shares".

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares—A. Applications for Hong Kong Offer Shares—6. Applying by giving **Electronic Application Instructions** to HKSCC via CCASS" in this prospectus.

(5) The announcement will be available for viewing on the "IPO Allotment Results" page on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

(6) None of the websites or any of the information contained on the websites forms part of this prospectus.

(7) The Share certificates will only become valid at 8:00 a.m. on the Listing Date, which is expected to be Friday, June 15, 2018, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

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## **EXPECTED TIMETABLE<sup>(1)</sup>**

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For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares.”

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

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*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them, or any other person or party involved in the Global Offering. Information contained on our website, located at [www.huifu.com](http://www.huifu.com), does not form part of this prospectus.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

Our mission is to leverage innovative payment and fintech solutions to create value for businesses and consumers.

#### Our Company and Market Position

We are a leading independent third-party payment service provider in China, focusing on merchant payment and fintech enabling services. According to Frost & Sullivan, in terms of payment volumes processed in 2017, we ranked:

- first among independent third-party payment service providers (those not owned or controlled by financial institutions or corporate groups, such as large ecommerce platforms) in the market segment for micro and small merchants in China, with a market share of 5.5%;
- third among independent third-party payment service providers in China, with a market share of 7.7%; and
- seventh among all third-party payment service providers in China, with a market share of 2.0%.

Leveraging our industry-leading expertise in payments and related technologies, we have also been developing and commercializing a growing range of fintech enabling services.

Our principal business lines are:

- **Merchant Payment Services:** We provide various merchant payment services to millions of micro and small merchants as well as companies in select industry verticals. Our solutions enable clients to offer their customers a seamless, convenient and safe way to pay regardless of whether such payments are made in-store, online, or on-the-go.

Our merchant payment services are divided into five types, consisting of POS, Internet payment, mobile POS, mobile payment and cross-border payment services. Our POS services involve providing POS terminals and software to enable merchants to accept payments from bank cards through the UnionPay clearing network. Our Internet payment services enable merchants to receive payments on the Internet which are normally executed on a computer, and are primarily provided to industry verticals in our customized industry-specific solutions. Our mobile POS services utilize various communication methods, such as Bluetooth, near field communication and QR codes, which enable wireless data transfers between devices whereby a payment is processed through our proprietary mobile app and mobile POS accessory. Our mobile payment services enable payers to make payments using their mobile devices which are then processed through a

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## SUMMARY

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third-party mobile app connecting to our services. Our cross-border payment services process payments for cross-border transactions, primarily for cross-border ecommerce platforms.

- ***Fintech Enabling Services:*** Building on our strong payment technological capabilities, we also provide fintech enabling services to Internet finance providers and commercial banks which empower them to improve their information visibility, operation efficiency and data security, and enable them to offer more flexibility and convenience when serving their customers. Our services include software as a service, or SaaS offerings, such as account management services, and data-driven value-added services.

In 2015, 2016 and 2017, our revenue generated from merchant payment services accounted for 86.2%, 92.4% and 94.0% of our total revenue, respectively, and our revenue generated from fintech enabling services accounted for 13.4%, 6.4% and 5.8% of our total revenue, respectively.

In collaboration with our extensive network of independent sales organizations, or ISOs, and channel partners as well as with our direct sales force, we have built a broad client coverage, in particular, over micro and small merchants across China. As of December 31, 2017, our client base reached over 5.8 million micro and small merchants, 1,500 Internet finance providers and 4,000 companies in various industry verticals in China.

We are a pioneer in the PRC third-party payments industry. In 2007, we launched the first customized payment solution for the airline ticketing industry by connecting airlines, ticketing agencies and customers, thereby significantly improving settlement efficiency. In 2010, we were the first third-party payment service provider authorized by the CSRC to offer payment and settlement services for fund sales. In 2011, we were among the first companies to obtain a Payment License from the PBOC. In 2012, we were the first to build an ISO network for the distribution of our point of sales, or POS, services, reaching millions of micro and small merchants across China in a cost-effective manner. In addition, over the course of our operating history, our management team, led by our founder, chairman and chief executive officer, Mr. ZHOU Ye, has demonstrated extensive expertise and track record in both the technology and the financial services industries which are instrumental to our success.

In recognition of our achievements and industry leadership, we are a standing member of the Payment and Clearing Association of China as well as a vice-chair member of the Association of Shanghai Internet Finance Industry, and we were one of ten PRC companies, and the only PRC financial services provider, to be awarded “Global Growth Companies” in the 2015 World Economic Forum.

In 2015, 2016 and 2017, we generated revenue of RMB555.7 million, RMB1,094.8 million and RMB1,726.3 million, respectively, and had a net loss of RMB7.6 million and a net profit of RMB118.7 million and RMB132.8 million, respectively. In particular, our revenue from mobile POS services increased significantly from RMB72.9 million in 2015 to RMB704.9 million in 2016, and further increased by 71.4% to RMB1,208.2 million in 2017, primarily due to a significant increase in mobile POS payment volume we processed as a result of the increase in the number of our micro and small merchant clients, due primarily to our launch and promotion of *SuPay* (閃電寶) mobile POS solution, and the continued growth and popularity of mobile POS payments among merchants and consumers in China. Our revenue from POS services decreased by 64.7% from RMB135.2 million in 2015 to RMB47.7 million in 2016, primarily due to a gradual decrease of POS payment volume we



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## SUMMARY

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processed as a result of the gradual suspension of our POS services in 15 provincial-level regions in 2015 and our focus on developing mobile POS services in 2016; but such revenue increased by 43.2% to RMB68.3 million in 2017, primarily due to an increase in POS payment volume we processed as a result of our enhanced collaboration with ISOs and SaaS providers, and an increase in our average service fee rate for our POS services as we increased our fee rate following the promulgation of a new regulation in September 2016. See “Financial Information—Results of Operations—Revenue.”

### **Our Industry and its Trends**

In China, third-party payment services are provided by non-bank payment service providers which act as the intermediary for payment processing and settlement between merchants and customers. Third-party payment services are primarily divided into five types, namely, POS, Internet payment, mobile POS, mobile payment and cross-border payment services.

In our industry, key participants are the PBOC, UnionPay, commercial banks, third-party payment service providers, merchants and customers. In August 2017, the PBOC mandated the establishment of a nationwide centralized clearing platform for Internet and other network payments, NetsUnion, and third-party payment service providers are required to forward such payments through this new platform from the second half of 2018.

The third-party payments market in China has grown rapidly in the past years. In 2017, third-party payment volume reached RMB152.9 trillion, three times larger than that of RMB37.3 trillion in 2015. According to Frost & Sullivan, this market is expected to reach RMB470.1 trillion in 2021. We believe we are well-positioned to take advantage of the following favorable industry trends:

- *Changing payment habits of consumers.* Rapid development of ecommerce in China has prompted changes in consumer habits towards digital payments and payments from mobile phone, driving the growth of the third-party payments industry in China. According to Frost & Sullivan, in 2017, 97.5% of China’s Internet users went online via mobile devices and 65.5% of them used mobile POS or mobile payment services.
- *Increasing demand from micro and small merchants for both payment services and value-added services.* Micro and small merchants in China have significant needs for payment and value-added services but are generally underserved. As the number of micro and small merchants is expected to continue growing, we believe merchants’ demand for payment and value-added services will increase.
- *Advancement in payment technology.* New and emerging technology, such as artificial intelligence, big data analytics, cloud-based computing, and biometric authentication, are driving the innovation and offering of new payment services and improvement of customer experience.
- *More proactive government regulation.* The PBOC and other regulatory authorities are expected to introduce more proactive and specific industry regulations and enhance their regulatory framework to promote healthy growth of the third-party payments industry.

Pricing for third-party payment services in China is affected by both regulatory developments and market competition. For example, before September 6, 2016, the processing fee rate for POS services was based on the nature of the merchant’s industry and shared among the issuing bank, the payment service provider and UnionPay in the proportion of approximately 70%, 20% and 10%,

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## SUMMARY

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respectively. Effective from September 6, 2016, a new and unified processing fee range for POS services has been introduced. All merchants are charged a unified fee rate by the issuing bank and the clearing house, and a largely market-driven service fee rate by the third-party payment service provider. In addition, the processing fee rates for Internet and mobile payment services in the industry are largely market-driven and have shown a downward trend in recent years due to intense market competition. However, as merchants began to attach more importance to quality, safety, convenience and comprehensiveness of the payment services, the processing fee rates remained relatively stable in 2016 and 2017. According to Frost & Sullivan, there is little room for further decreases in the processing fee rates for Internet payments and mobile POS services in the long run.

### **Sales Channels and Suppliers**

We use different sales channels to reach clients of different sizes or industries.

We were the first third-party payment service provider in China to build relationships with a network of ISOs for POS and mobile POS services, reaching millions of micro and small merchants across China in a cost-effective manner. During the Track Record Period, substantially all of our micro and small merchant clients, which represent the vast majority of our clients, were originated by ISOs. During the Track Record Period, the aggregate payment volumes and revenue generated by these merchant clients were RMB1,128.4 billion and RMB2,237.2 million, respectively, and accounted for 50.6% and 71.9% of the total payment volumes we processed and the total revenue generated from merchant payment services for the Track Record Period, respectively. Both proportions have increased during the Track Record Period. An ISO is independent from us, but is also required to comply with our merchant management and other requirements. An ISO is mainly responsible for merchant development and training, and deployment and maintenance of our payment terminals, and it is ultimately our responsibility to select, approve and manage merchants.

Our direct sales force is responsible for sales and marketing towards key industry verticals, such as airline ticketing and Internet finance, and our sales staff are strategically stationed in major cities such as Shanghai, Beijing, Chengdu and Guangzhou. In 2017, we began to partner with leading SaaS providers to integrate our payment services module into their solutions and leverage their distribution channels and client base to conduct marketing and develop merchants. We are also in close collaboration with PRC commercial banks to jointly develop high-value merchants.

In addition to ISOs, our suppliers and business partners also include UnionPay which primarily provide us with clearing and switch services and access to payment gateways, commercial banks which primarily provide us with access to their payment gateways, as well as payment terminal manufacturers which supply us with mobile POS accessories and POS terminals.

### **Technology and Research and Development**

Our business is driven by technology and our success depends on our research and development capability. Our IT engineers, programmers and data scientists account for 36.7% of our total headcount as of December 31, 2017. We believe we are an industry leader in developing, upgrading and commercializing payment and fintech solutions.

We believe our proprietary infrastructure and technologies are critical to our success. We have made significant investments in developing our core technology systems, which is one of our competitive advantages. All of our principal information technology systems, such as our bank-grade IT infrastructure, enterprise-grade account system and smart payment gateway system, are developed

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## SUMMARY

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in-house. Supported by our technology infrastructure, we can process millions of payments efficiently and securely on a daily basis, while complying with applicable regulations and minimizing the risk of fraud. Additionally, our data center manages and analyzes the mass amount of data generated in our business. We use big data analytics technology to create value for us and our clients, such as detecting abnormal transactions, identifying high-risk merchants and generating real-time business intelligence reports. We also apply artificial intelligence in our biometrics authentication technology to improve our risk management, operating efficiency and client experience.

### **Risk Management**

With our robust, comprehensive and technology-driven risk management, we are able to effectively manage and mitigate risks inherent in our business to protect us, our clients and our partners, as well as meet regulatory obligations. Our system addresses a variety of risks including fraud, money laundering, legal and compliance, IT, liquidity and operational risks. During the Track Record Period, our impairment of other receivables, primarily representing our impairment of chargebacks caused by fraudulent transactions, decreased from RMB70.7 million in 2015 to RMB43.6 million in 2016, and further decreased to RMB31.6 million in 2017. See “Business—Risk Management.” Our risk management system is comprised of three lines of risk defense and our Board of Directors assumes the ultimate responsibility for our risk management, internal controls and compliance.

### **OUR COMPETITIVE STRENGTHS**

We believe the following competitive advantages have positioned us favorably in the PRC third-party payments industry and will help drive our growth in the future:

- Pioneer in the PRC third-party payments industry;
- Industry leading payment and fintech enabling services;
- Broad client reach through multiple and complementary sales channels;
- Single and integrated platform with high operating efficiency;
- Deep technology and data analytics expertise and capabilities;
- Comprehensive, robust and technology-driven risk management; and
- Experienced management team and innovative workforce.

### **OUR STRATEGIES**

Our competitive strengths have positioned us favorably to pursue a variety of new opportunities. We aim to become a leading global payment and fintech enabling services provider by executing the following strategies:

- Further expand our client base to increase revenue;
- Diversify our offering of payment-based value-added services to improve client experience and maximize merchant value;
- Continue to develop fintech enabling services to capture clients’ needs;
- Continue to strengthen technology and research and development capabilities;
- Further recruit and cultivate talents; and
- Selectively pursue strategic alliances and acquisitions.

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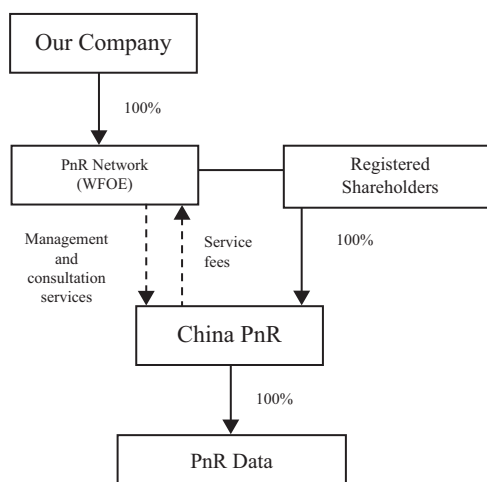
### OUR COMPETITION WITH ALIPAY AND TENPAY

According to Frost & Sullivan, our business model and market positioning are different from those of Alipay and Tenpay, the two largest third-party payment service providers in China, whose business models are designed to primarily serve individual consumers who are generally payers, while we primarily focus on micro and small merchants and companies in select industry verticals, who are generally payees. Since Alipay and Tenpay currently do not provide customized payment solutions to industry verticals according to Frost & Sullivan, they do not compete with us in this area. Alipay and Tenpay provide services to micro and small merchants enabling them to accept digital payments through QR codes, thus a certain degree of overlap exists between their and our payment services for micro and small merchants. Considering our different business model and market positioning, we believe that our competition with Alipay and Tenpay is not material. Our Directors believe that we will remain competitive and sustainable in the third-party payments market. We market and distribute our merchant payment services primarily through our ISO network while Alipay and Tenpay rely principally on direct online and offline sales and marketing. Our omni-channel payment solutions, such as the *SuPay* mobile POS solution, enable micro and small merchants to accept payments from UnionPay bank cards, online banking and digital wallets, such as Alipay and WeChat Pay, as well as other digital payment methods, such as QuickPass and Apple Pay, while Alipay and Tenpay offer only their own branded payment methods. See “Business—Competition—Our Competition with Alipay and Tenpay” for more details.

### CONTRACTUAL ARRANGEMENTS

#### Our Contractual Arrangements

The operation of our Operating Entities are subject to various foreign ownership restrictions under PRC laws and regulations. We therefore do not own any equity interest in our Operating Entities. In order to maintain and exercise control over our Operating Entities, we have adopted the Contractual Arrangements. The Contractual Arrangements allow us to enjoy the economic benefits of our Operating Entities and consolidate their results of operations into ours. See “Contractual Arrangements.” The following simplified diagram illustrates the flow of economic benefits from our Operating Entities to our Group stipulated under the Contractual Arrangements:



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

“- ->” denotes contractual relationship.

“—” denotes the control by the WFOE over the Registered Shareholders and the Operating Entities through (i) powers of attorney to exercise all shareholders’ rights in China PnR, (ii) exclusive options to acquire all or part of the equity interests in China PnR, and (iii) equity pledges over the equity interests in China PnR.

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## SUMMARY

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### **Draft Foreign Investment Law**

The MOFCOM published a discussion draft of a proposed Foreign Investment Law (the “**Draft FIL**”) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC. The MOFCOM solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft FIL, if enacted as proposed, may materially impact the entire legal framework regulating foreign investment in the PRC. As of the Latest Practicable Date, the Draft FIL is in draft form only, and there is no certainty as to whether, or a definite timeline as to when, the finalized/new Foreign Investment Law will come into effect, and, more importantly, whether it is to be promulgated in the current draft form. The MOFCOM has neither issued any definite rules or regulations to govern existing contractual arrangements, nor any regulations concerning the treatment of investors from Hong Kong, Macau and Taiwan who control a domestic enterprise. For details of the Draft FIL and its promulgation status, see “Contractual Arrangements.”

After consulting with our PRC Legal Advisors and based on their advice, we have adopted a series of arrangements and measures to mitigate any potential risk and fulfill the relevant requirements under the Draft FIL. For details, see “Contractual Arrangements.” However, such arrangements and measures may not be effective since the Draft FIL has not been finalized and requirements under the final Foreign Investment Law may be different from those set out in the Draft FIL. Our Company undertakes that it will, after consulting with our PRC Legal Advisors and based on their advices, disclose (i) updates of changes to the Draft FIL that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the final FIL as implemented, specific measures taken by us to fully comply with the final FIL and any material impact of the final FIL on our business operations and financial position, as soon as practicable.

For the risks relating to the Contractual Arrangements, see “Risk Factors—Risks Relating to Our Contractual Arrangements.”

### **OUR SHAREHOLDING STRUCTURE**

#### **Relationship between the Excluded Group and Our Group**

As a result of the Reorganization, the shareholding structure of PnR (Cayman) will substantially mirror ours. The shareholding structure of Paytech Holdings will also be similar to that of ours. While our Directors consider that there is a clear delineation between the business of our Group and Excluded Group, each of PnR (Cayman) and Paytech Holdings has provided a non-competition undertaking on May 20, 2018 in favor of our Group. See “History and Reorganization—Relationship between the Excluded Group and Our Group.”

We carry out certain continuing connected transactions with the Excluded Group, including the Contractual Arrangements. See “Connected Transactions.”

#### **Pre-IPO Investments**

We introduced Trixen, Bright Journey, Eight Roads Ventures, Walden, Keytone and Bain PnR as our Pre-IPO Investors through several rounds of Pre-IPO Investments from 2006 to 2018. For details of our Pre-IPO Investments, see “History and Reorganization—Material Shareholding Change and Pre-IPO Investments.”

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## SUMMARY

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### Pre-IPO Share Option Scheme

In order to provide incentives and rewards to our Directors, members of the senior management of the Company and other employees for their contribution to us, and to align the corporate objectives and interests between us and the grantees, we adopted the Pre-IPO Share Option Scheme. As of the Latest Practicable Date, Options to subscribe for an aggregate of 301,923,937 Shares, representing approximately 24.13% of our issued share capital upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme), or approximately 19.44% of our enlarged issued share capital upon full exercise of all the outstanding Options granted under the Pre-IPO Share Option Scheme on the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have been granted by us to a total of three Directors, two members of the senior management of the Company, one director of our subsidiary who constitutes the connected person of our Group, one grantee who is entitled to Options to subscribe for 8,000,000 Shares or more (the “**Significant Grantee**”) and 225 other grantees under the Pre-IPO Share Option Scheme. As of the Latest Practicable Date, none of the Options granted under the Pre-IPO Share Option Scheme has been exercised. See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme.”

### BUSINESS NAME IN HONG KONG

Our Company was incorporated in the Cayman Islands and named as Huifu Limited (汇付天下有限公司) in December 2017. On February 28, 2018, our Company was registered in Hong Kong as a registered non-Hong Kong company under its names, Huifu Limited in English and 汇付天下有限公司 in Chinese. In the meantime, we were informed by the Registrar of Companies that our English corporate name registered was “the same as” the English name of “Hui Fu Company Limited (匯富通讯有限公司)”, another company already registered under the Companies Ordinance or the predecessor Ordinance. We are not in any way connected with or related to Hui Fu Company Limited (匯富通讯有限公司). We also noted that a trademark “匯付通” has been registered by another company with the Hong Kong Registrar of Trade Marks. To minimize the potential risks of legal proceedings, we applied to the Registrar of Companies and the Registrar of Companies has approved “Huifu Payment Limited” as our business name under which we will carry on business in Hong Kong. See “Business—Intellectual Property Rights and Corporate Names—Corporate Names.”

### RISK FACTORS

Our business and the Global Offering involve certain risks, which are set out in “Risk Factors.” You should read that section in its entirety carefully before you decide to invest in our shares. Some of the major risks we face include:

- Our rapid historical growth may not be sustainable or indicative of our future growth;
- If the industry quickly migrates from mobile POS services to mobile payment services, our results of operations and business prospects will be adversely affected.
- Market, economic and other conditions in China may adversely impact the demand for our services;
- We are subject to extensive regulatory requirements, and noncompliance with or changes to these regulatory requirements may affect our business operations and financial results;
- If we fail to compete effectively, we may lose clients, which could materially and adversely affect our business, financial condition and results of operations;
- If we fail to maintain our relationships with ISOs and other channel partners, or to properly manage them, our business, financial condition, results of operations, risk management capabilities and reputation could be adversely affected;

## SUMMARY

- We rely on third parties, such as UnionPay, commercial banks as well as IT infrastructure and services providers, for a variety of services and support from their infrastructure. Any failure by these third parties to perform their obligations or services adequately or on acceptable terms could materially and adversely affect our business;
- Changes in the regulation on the centralized deposit and supervision of client reserve funds by the PBOC may adversely affect our interest income and client experience;
- Fraudulent and fictitious transactions may pose severe challenges to our risk management capabilities and failure to identify those transactions and manage the related risks may adversely affect our business, financial condition, and results of operations; and
- We could incur liabilities if our merchants or ISOs refuse or are unable, financially or otherwise, to reimburse us for chargebacks resolved in favor of the customers.

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial information from our consolidated financial information for the Track Record Period, extracted from the Accountant’s Report set out in Appendix I to this prospectus. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this prospectus, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

#### Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
<b>Revenue<sup>(1)</sup></b> .....	<b>555.7</b>	<b>1,094.8</b>	<b>1,726.3</b>
Merchant payment services .....	478.9	1,012.0	1,622.8
— <i>Mobile POS services</i> .....	72.9	704.9	1,208.2
— <i>Internet payment services</i> .....	233.0	187.6	240.2
— <i>Mobile payment services</i> .....	37.7	70.9	92.1
— <i>POS services</i> .....	135.2	47.7	68.3
— <i>Cross-border payment services</i> .....	—	0.9	14.0
Fintech enabling services .....	74.7	69.6	99.9
Others .....	2.1	13.1	3.5
Cost of sales .....	(297.5)	(630.7)	(1,159.2)
<b>Gross profit</b> .....	<b>258.2</b>	<b>464.1</b>	<b>567.0</b>
Selling and marketing expenses .....	(65.2)	(81.9)	(95.0)
Administrative expenses .....	(118.0)	(146.0)	(215.9)
Research and development expenses .....	(79.8)	(93.3)	(130.8)
Finance costs .....	(1.5)	(15.2)	(22.3)
Share of losses of associates .....	(0.0)	(9.7)	(7.1)
Other expenses .....	(75.2)	(72.5)	(65.3)
Other income and gains <sup>(2)(3)</sup> .....	85.1	94.1	124.7
<b>Profit before tax</b> .....	<b>3.6</b>	<b>139.7</b>	<b>155.4</b>
Income tax expense .....	(11.1)	(21.0)	(22.6)
<b>Profit/(loss) for the year</b> .....	<b>(7.6)<sup>(4)</sup></b>	<b>118.7</b>	<b>132.8</b>

(1) For the analysis of changes in our revenue, see “Financial Information—Results of Operations—Revenue.”

## SUMMARY

- (2) We had RMB46.4 million, RMB29.7 million and RMB31.8 million of government grants in 2015, 2016 and 2017, respectively, primarily consisting of tax refunds as certain technologies we developed for our business are recognized as high and new technology achievements in China. For details, see “Financial Information.”
- (3) We had RMB26.1 million, RMB38.3 million and RMB61.6 million of interest income in 2015, 2016 and 2017, respectively. We expect our interest income from client reserve funds to decrease gradually from 2018. Relevant PBOC regulations require all third-party payment services providers in the PRC to deposit, starting from 2018, an increasing proportion of their client reserve funds to centralized depository accounts, which are supervised and monitored by the PBOC, and such funds will no longer be interest-bearing.
- (4) We had a net loss of RMB7.6 million in 2015, primarily due to an RMB70.7 million impairment of other receivables relating to widespread fraudulent card transactions in early 2014.

### Non-IFRS Financial Measures

The following table reconciles our EBITDA, adjusted EBITDA and adjusted net profit or loss presented to the most directly comparable financial measures calculated and presented in accordance with the IFRS, which is profit/ (loss) for the year. EBITDA, adjusted EBITDA and adjusted net profit or loss are not required by, or presented in accordance with, IFRS. See “Financial Information—Non-IFRS Financial Measures” for details.

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Reconciliation of profit/ (loss) for the year to EBITDA and adjusted EBITDA			
Profit/ (loss) for the year	(7.6)	118.7	132.8
Add:			
Income tax expense	11.1	21.0	22.6
Finance costs	1.5	15.2	22.3
Depreciation of property, plant and equipment	15.5	27.1	117.2
Amortization of intangible assets	6.1	7.0	8.1
<b>EBITDA<sup>(1)</sup></b>	<b>26.6</b>	<b>189.0</b>	<b>303.0</b>
Add:			
Equity-settled share option expense	1.9	1.2	33.7
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>28.5</b>	<b>190.2</b>	<b>336.7</b>
Reconciliation of profit/ (loss) for the year to adjusted net profit/ (loss)			
Profit/ (loss) for the year	(7.6)	118.7	132.8
Add:			
Equity-settled share option expense	1.9	1.2	33.7
<b>Adjusted net profit/ (loss)<sup>(1)</sup></b>	<b>(5.7)</b>	<b>119.9</b>	<b>166.5</b>

- (1) We believe that the non-IFRS measures of EBITDA, adjusted EBITDA and adjusted net profit/ (loss) facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider indicative of our operating performance. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. Our presentation of the EBITDA, adjusted EBITDA and adjusted net profit/ (loss) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.



## SUMMARY

### Summary Consolidated Statements of Financial Position

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Current assets	3,879.0	5,798.8	7,235.5
Current liabilities	3,817.7	5,855.5	7,382.8
Net current assets/(liabilities)	61.3	(56.7)	(147.3)
Non-current assets	347.4	604.0	888.6
Non-current liabilities <sup>(1)</sup>	2.0	7.6	35.0
<b>Total equity</b>	<b>406.7</b>	<b>539.7</b>	<b>706.2</b>

(1) We had net current liabilities as of December 31, 2016 and 2017 because we incurred short-term liabilities, such as bank borrowings, payables for the acquisition of building and trade payables, to finance our purchase of long-term assets, such as our headquarters building, payment terminals and certain long-term investment products, reflecting our capital management policy during the Track Record Period.

### Summary Consolidated Statements of Cash Flows

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Net cash flow (used in)/from operating activities	(46.2)	(439.3)	775.5
Net cash flow used in investing activities	(277.5)	(371.0)	(310.3)
Net cash flow from/(used in) financing activities	232.0	772.6	(336.5)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(91.7)</b>	<b>(37.7)</b>	<b>128.8</b>
Cash and cash equivalents at beginning of year	305.4	213.6	176.0
<b>Cash and cash equivalents at end of year</b>	<b>213.6</b>	<b>176.0</b>	<b>304.7</b>

### KEY FINANCIAL RATIOS

	Year ended December 31,		
	2015	2016	2017
Gross margin <sup>(1)</sup>	46.5%	42.4%	32.8%
Net profit margin <sup>(2)</sup>	(1.4)%	10.8%	7.7%
Adjusted EBITDA margin <sup>(3)</sup>	5.1%	17.4%	19.5%
Adjusted net profit margin <sup>(4)</sup>	(1.0)%	11.0%	9.6%

(1) Gross margin equals gross profit divided by revenue and multiplied by 100%.

(2) Net profit margin equals profit/ (loss) for the year divided by revenue and multiplied by 100%.

(3) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue and multiplied by 100%.

(4) Adjusted net profit margin equals adjusted net profit/ (loss) divided by revenue and multiplied by 100%.

## SUMMARY

### KEY OPERATING DATA

	Year ended December 31,		
	2015	2016	2017
<b>Payment volume</b> (RMB in billions)			
—POS .....	156.0	49.0	55.7
—Mobile POS .....	25.6	238.4	603.7
—Internet payments .....	203.5	238.7	321.7
—Mobile payments .....	63.6	115.5	153.9
—Cross-border payments .....	—	0.3	4.9
<b>Total</b> .....	<b><u>448.6</u></b>	<b><u>641.9</u></b>	<b><u>1,140.0</u></b>
<b>Average service fee rate</b> (bps) <sup>(1)</sup>			
—POS .....	8	9	12
—Mobile POS .....	21	27	19
—Internet payments .....	11	8	7
—Mobile payments .....	6	6	6
—Cross-border payments .....	—	32	29

(1) For our merchant payment services, we typically charge a service fee to our clients based on a percentage of the payment volume. Average service fee rate for a payment service is calculated by dividing our service fees from processing such payments by the corresponding payment volume processed.

### DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. Any dividends we pay will be at the discretion of our Directors and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Directors deems relevant. Dividend distributions to our shareholders are recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends had been paid or declared by us. In the first two months of 2018, we paid special dividends to our shareholder, PnR Holdings, in relation to our Reorganization. See “—Recent Developments.” We do not have a fixed dividend payout ratio.

### RECENT DEVELOPMENTS

In the first quarter of 2018, our business continued to grow rapidly and our revenue increased significantly compared to the same period in 2017, due primarily to a 103.6% increase in the payment volumes we processed from RMB201.5 billion in the first quarter of 2017 to RMB410.3 billion in the first quarter of 2018. Our Directors confirm that there have been no material adverse changes in our financial, operational or trading positions or prospects since December 31, 2017, being the end date of our audited consolidated financial statements, and up to the date of this prospectus.

Recognizing our pioneering and innovation capabilities, we entered into a comprehensive strategic cooperation agreement with UnionPay on March 8, 2018 to jointly conduct marketing campaigns, promote value-added services and reach a broader client base in China and overseas. See “Business—Our Suppliers and Business Partners—UnionPay.” In May 2018, we entered into a memorandum of understanding with First Data Merchant Solutions Pte Limited, an affiliate of First Data Corporation which is a global leader in commerce-enabling technology and solutions, for future cooperation on business operation, marketing and fintech research and development.

In January and February 2018, as part of our Reorganization, we borrowed two short-term bank loans of HK\$355.0 million and US\$17.7 million at annual interest rates of 2.3% and 3.3%, respectively, both due January 2019. We intend to use a portion of the net proceeds from this Global Offering to partially repay these borrowings. See “Future Plans and Use of Proceeds.” In January and

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## SUMMARY

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February 2018, we paid special dividends of US\$45.4 million and US\$17.7 million, respectively, to our shareholder, PnR Holdings, in relation to our Reorganization. See “History and Reorganization—Our Reorganization.”

On March 19, 2018, the PBOC issued “Announcement No.7 of the People’s Bank of China (2018)” (《中國人民銀行公告(2018)第7號》) (the “**No.7 Announcement**”) and the “PBOC’s Replies to Journalists’ Questions relating to Entry and Regulatory Policies on Foreign-invested Payment Institutions” (《中國人民銀行就外商投資支付機構准入和監管政策有關問題答記者問》), pursuant to which foreign institutions may be granted the Payment License, subject to the conditions and procedures stipulated under the Measures. However, the PBOC has not yet promulgated any detailed measures for implementation of the No.7 Announcement. As confirmed by our PRC Legal Advisors, (i) the Payment License held by PnR Data will not be affected by the issue of No.7 Announcement; and (ii) the No. 7 Announcement only set out the general requirements for newly application of Payment Licenses by foreign institutions, but has not promulgated any detailed requirements and measures for the implementation of the change of domestic institutions which have obtained Payment Licenses into foreign-invested payment institutions. See “Contractual Arrangements—PRC Regulatory Background—Background.”

In May 2018, we increased the registered capital of PnR Data from RMB100.0 million to RMB200.0 million to meet the needs of our rapidly growing business. See “Business—Legal and Regulatory Proceeding and Compliance—Regulatory Inspections.”

### OFFERING STATISTICS

All statistics in the following table are based on the assumptions that: (i) the Global Offering has been completed and 225,263,600 Shares are issued pursuant to the Global Offering; (ii) the Over-allotment Option is not exercised, and (iii) 1,251,462,961 Shares are issued and outstanding following the completion of the Global Offering.

	<u>Based on an Offer Price of HK\$6.50</u>	<u>Based on an Offer Price of HK\$8.50</u>
Market capitalization of our Shares . . . . .	HK\$8,135 million	HK\$10,637 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(1)</sup> . . . . .	HK\$1.76 (RMB1.43)	HK\$2.10 (RMB1.71)

(1) The unaudited pro forma adjusted net tangible assets per Share as of December 31, 2017 is calculated after making the adjustments referred to in Appendix II to this prospectus.

### LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions, incentive fee and other fees incurred in connection with the Global Offering. We estimate that our listing expenses will be approximately RMB86.7 million (assuming an Offer Price of HK\$7.50 per Share (being the mid-point of the indicative Offer Price range) and no exercise of the Over-allotment Option), of which RMB43.6 million is directly attributable to the issue of our Shares to the public and will be capitalized and amortized, and RMB43.1 million has been or is expected to be expensed, of which RMB7.8 million has been recognized in 2017 and the remaining has been or is expected to be recognized in 2018.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$7.50 per Share, being the mid-point of the indicative Offer Price range, we estimate that we will receive net proceeds of approximately HK\$1,592.5 million from

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## SUMMARY

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the Global Offering after deducting the estimated underwriting commissions, the maximum amount of the discretionary incentive fee and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- Approximately 30%, or HK\$477.8 million, for further enhancing our technology systems and research and development capability;
- Approximately 20%, or HK\$318.5 million, for pursuing selective acquisitions of, or strategic investments in, payment technology companies, payment service providers and/or SaaS providers. As of the Latest Practicable Date, we have not identified or pursued any acquisition target;
- Approximately 10%, or HK\$159.2 million, for investing in our direct sales channel in tier-one and tier-two cities in China, such as Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu, to facilitate the acquisition and the support of key clients in selected industrial verticals, such as healthcare, logistics and education sectors, and enhancing our ISO network in tier-three and tier-four cities in China and strengthening collaboration with SaaS providers;
- Approximately 10%, or HK\$159.2 million, for further recruiting and cultivating talents and continuing to offer competitive compensation to our existing employees;
- Approximately 20%, or HK\$318.5 million, for partially repaying the principal amount and interests on our HK\$355.0 million and US\$17.7 million (approximately HK\$138.9 million) bank borrowings which we incurred in January and February 2018 as part of our Reorganization; and
- Approximately 10%, or HK\$159.2 million, for working capital and general corporate uses.

For further details, see “Future Plans and Use of Proceeds.”

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering, on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue in 2017, being RMB1,726.3 million (approximately HK\$2,121.0 million), which is over HK\$500 million, and (ii) our expected market capitalization at the time of our Listing, which, based on the low end of the indicative Offer Price range, exceeds HK\$4 billion. We would not be able to meet the profit test under Rule 8.05(1) if “other income and gains” which were mostly generated outside of our ordinary and usual course of business were excluded.

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## DEFINITIONS

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

“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Applications Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Bain PnR”	Bain Capital PnR Cayman Limited, one of our Pre-IPO Investors, the details of which are set out in “History and Reorganization”
“Board” or “Board of Directors”	the board of Directors of our Company
“Bright Journey”	Bright Journey Investment Limited, one of our Pre-IPO Investors, the details of which are set out in “History and Reorganization”
“Business day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	A CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China PnR”	China PnR Co., Ltd. (匯付天下有限公司), a company incorporated under the laws of the PRC on June 23, 2006 with limited liability, and one of our Operating Entities

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## DEFINITIONS

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“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Cap. 622), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “the Company”	an exempted company incorporated in the Cayman Islands with limited liability on December 21, 2017 under the names of “汇付天下有限公司” and “Huiifu Limited”, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, PnR Network, China PnR and the Registered Shareholders, details of which are described in “Contractual Arrangements”
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“Draft Foreign Investment Law” or “Draft FIL”	the Draft Foreign Investment Law (中華人民共和國外國投資法(草案)) published by MOFCOM in January 2015
“EBITDA”	earnings before interest, taxes, depreciation and amortization
“Eight Roads Ventures”	Asia Ventures II L.P., one of our Pre-IPO Investors, the details of which are set out in “History and Reorganization”
“EIT Law”	Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Exchange Participant(s)”	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“Excluded Entity(ies)”	subsidiaries and operating entities excluded from our Group during the Reorganization
“Excluded Group”	PnR (Cayman), Paytech Holdings and/or their respective subsidiaries or operating entities (as the case may be)
“Global Offering”	the Hong Kong Public Offering and the International Offering

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## DEFINITIONS

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“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group” or “our Group” or “we” or “us”	our Company and its subsidiaries (including the Operating Entities) or our Company and any one or more of its subsidiaries, as the context may require
“HK\$” or “HK dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Offer Shares”	the 22,526,400 Offer Shares initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and on the Application Forms as further described in “Structure of the Global Offering—the Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting—Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated May 31, 2018 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in “Underwriting—Underwriting Arrangements and Expenses” in this prospectus

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## DEFINITIONS

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“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Huihan Commercial Factoring”	Shanghai Huihan Commercial Factoring Co., Ltd. (上海匯涵商業保理有限公司), a company incorporated under the laws of the PRC on August 23, 2017 with limited liability and a subsidiary of our Company
“IFRS”	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
“Independent Third Party(ies)”	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules
“International Offer Shares”	the 202,737,200 Shares initially offered by our Company for subscription pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in “Structure of the Global Offering” in this prospectus)
“International Offering”	the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act and in the United States to QIBs in reliance on Rule 144A or any other available exemption from the registration requirement under the U.S. Securities Act, as further described in “Structure of the Global Offering” in this prospectus
“International Underwriters”	the group of international underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around June 7, 2018 by, among others, our Company, the Joint Global Coordinators and the International Underwriters in respect of the International Offering, as further described in “Underwriting—Underwriting Arrangements and Expenses—International Offering” in this prospectus
“ISO”	the independent sales organization
“Joint Bookrunners”	J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering only), J.P. Morgan Securities plc (in relation to the International Offering only), CLSA Limited, CCB International Capital Limited, Haitong International Securities Company Limited, Credit Suisse (Hong Kong) Limited and CMB International Capital Limited



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## DEFINITIONS

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“Joint Global Coordinators”	J.P. Morgan Securities (Asia Pacific) Limited and CLSA Limited
“Joint Lead Managers”	J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering only), J.P. Morgan Securities plc (in relation to the International Offering only), CLSA Limited, CCB International Capital Limited, Haitong International Securities Company Limited, Credit Suisse (Hong Kong) Limited and CMB International Capital Limited
“Joint Sponsors”	CLSA Capital Markets Limited and J.P. Morgan Securities (Far East) Limited
“Keystone”	Keystone Ventures, L.P. and Keystone Ventures II, L.P., two of our Pre-IPO Investors, the details of which are set out in “History and Reorganization”
“Latest Practicable Date”	May 25, 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around June 15, 2018, on which our Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing”	listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Management Company”	ChinaPnR Management Ltd., a BVI business company incorporated in the BVI with limited liability on August 24, 2006, and one of our substantial shareholders, which was held as to 60% by Mr. ZHOU Ye (周曄), 20% by Ms. MU Haijie (穆海潔) and 20% by Mr. LIU Gang (劉鋼) as of the Latest Practicable Date
“Memorandum and Articles of Association”	the amended and restated memorandum of articles of association and articles of association of our Company, conditionally adopted on May 20, 2018 with effect from the Listing Date, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“MIIT”	the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)

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## DEFINITIONS

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“Nanjing Dechen”	Nanjing Dechen Information Technology Co., Ltd. (南京德辰信息技術有限公司), a company incorporated under the laws of the PRC on March 5, 2015 with limited liability, and is wholly owned by PnR JH
“NDRC”	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)
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK\$8.50 and expected to be not less than HK\$6.50, at which the Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in “Structure of the Global Offering—Pricing and Allocation” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional Shares which may be issued by our Company pursuant to any exercise of the Over-allotment Option
“Operating Entity(ies)”	China PnR and PnR Data, the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements
“Option(s)”	option(s) granted under the Pre-IPO Share Option Scheme
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an additional 33,789,200 Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“Paytech Holdings”	Paytech Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands on May 8, 2015 with limited liability and a member of the Excluded Group
“Paytech Tech”	Paytech Technology LTD., an exempted company incorporated under the laws of the Cayman Islands on October 17, 2013 with limited liability and a member of the Excluded Group
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

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## DEFINITIONS

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“PnR (Cayman)”	PnR (Cayman) Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on December 21, 2017, and a member of the Excluded Group
“PnR Data”	Shanghai Payment and Remittance Data Service Co., Ltd. (上海匯付數據服務有限公司), a company incorporated under the laws of the PRC on April 28, 2007 with limited liability and one of the Operating Entities
“PnR Holdings”	PnR Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands on July 7, 2006 with limited liability, as a holding company of our Group prior to the Reorganization
“PnR Investment”	Shanghai PnR Investment Management Co., Ltd. (上海匯付投資管理有限公司), a company incorporated under the laws of the PRC on November 19, 2015 with limited liability and a member of the Excluded Group
“PnR JH”	PnR JH Tech Co., Ltd. (上海匯付錦翰信息技術有限公司), a company incorporated under the laws of the PRC on April 27, 2016 with limited liability and held as to 51% by PnR Network
“PnR Network”	PnR Network Technology (Shanghai) Co., Ltd. (匯付網絡技術(上海)有限公司), a company incorporated under the laws of the PRC on November 7, 2006 with limited liability and a wholly owned subsidiary of our Company
“PRC Legal Advisors”	Grandall Law Firm (Shanghai), the PRC legal advisors of our Company
“PRC” or “China”	the People’s Republic of China. For the purposes of this prospectus only and except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan
“Pre-IPO Investments”	the Pre-IPO investments in our Company undertaken by the Pre-IPO Investors, details of which are set out in “History and Reorganization”
“Pre-IPO Investors”	Trixen, Bright Journey, Eight Roads Ventures, Walden, Keytone and Bain PnR
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme of our Company as approved by the Board on January 20, 2018 and to be in effect immediately prior to the completion of the Global Offering, which was established for the purpose of replacing the pre-IPO share option schemes of PnR Holdings as approved by the board of directors of PnR Holdings on September 16, 2011, December 12, 2017 and January 20, 2018, respectively, a

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## DEFINITIONS

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	summary of the principal terms of which is set out in “Statutory and General Information—D. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus
“Price Determination Date”	the date, expected to be on or around June 7, 2018 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Global Coordinators and our Company may agree, but in any event no later than June 14, 2018
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“province”	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
“QIB” or “Qualified Institutional Buyer”	a qualified institutional buyer within the meaning of Rule 144A under the U.S. Securities Act
“Registered Shareholders”	the registered shareholders of China PnR, namely Mr. ZHOU Ye (周曄) as to 60%, Mr. LIU Gang (劉鋼) as to 15%, Ms. MU Haijie (穆海潔) as to 10%, Ms. XU Zhuomin (徐卓敏) as to 5%, Mr. ZHANG Ge (張戈) as to 5% and Ms. CHEN Yan (陳艷) as to 5% of the shares of China PnR, respectively
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the offshore and onshore reorganization as set out in “History and Reorganization—Our Reorganization”
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary shares in the share capital of our Company with a par value of HK\$0.0001

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## DEFINITIONS

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“Shareholder(s)”	holder(s) of our Shares
“Stabilizing Manager”	J.P. Morgan Securities plc
“State Council”	the State Council of the People’s Republic of China (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about Thursday, June 7, 2018 between the Stabilizing Manager and the Management Company
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“Track Record Period”	three financial years ended December 31, 2015, 2016 and 2017
“Trixen”	Trixen Enterprises Ltd., one of our Pre-IPO Investors, the details of which are set out in “History and Reorganization”
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“Walden”	Pacven Walden Ventures VI, L.P., Pacven Walden Venture Parallel VI, L.P. and Pacven Walden Venture Parallel VI-KT, L.P., three of our Pre-IPO Investors, the details of which are set out in “History and Reorganization”
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO</b> Service Provider, <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited

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## DEFINITIONS

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“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Yifu Cloud”	Shanghai Yifu Cloud Information Technology Co., Ltd. (上海易付雲信息科技有限公司), a company incorporated under the laws of the PRC on October 19, 2017 with limited liability and is a wholly-owned subsidiary of PnR Network

*In this prospectus, the terms “associate,” “close associate,” “connected person,” “core connected person,” “connected transaction,” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.*

*For ease of reference, the names of PRC established companies or entities, laws or regulations have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.*

“artificial intelligence”	intelligence exhibited by machines in the area of computer science that emphasizes the creation of intelligent machines that work and react like humans or other natural intelligence
“app” or “mobile app”	application software designed to run on smartphones and other mobile devices
“big data analytics”	the use of advanced analytic techniques against very large, diverse data sets to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information that can help organizations make more-informed business decisions
“CAGR”	compound annual growth rate
“client reserve funds”	funds received on behalf of our clients from processing payments which are payable to clients
“cloud-based”	applications, services or resources made available to users on demand via the Internet from a cloud computing provider’s servers with access to shared pools of configurable resources
“ecommerce”	buying or selling online which draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange, inventory management systems, and automated data collection systems
“fintech”	the new technology and innovation that aims to compete with traditional financial methods in the delivery of financial services
“ICP License”	Value-added Telecommunication Service Operation Permit for Internet Information Service (增值電信業務經營許可證(互聯網信息服務))
“industry vertical”	industries in which vendors offer goods and services to groups of customers with specific needs
“IP”	intellectual property
“merchant category code”	a four-digit number by the credit card networks, which denotes the type of business or service the merchant provides
“micro and small merchants”	the group of merchants whose annual payment volume is typically less than RMB2 million

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## GLOSSARY OF TECHNICAL TERMS

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“near field communication”	a set of communication protocols that enable two electronic devices, one of which is usually a portable device such as a smartphone, to establish communication by bringing them within 4 cm (1.6 in) of each other
“NetsUnion”	China Nets Union Clearing Corporation (中國網聯清算有限公司)
“omni-channel payment”	an ability to accept payments in a variety of ways with consistent customer experiences, regardless of whether such payments are made through bank card, online banking, digital wallet or other digital payment methods
“payment gateway”	interface that facilitates payment transactions by the transfer of information between a payment portal, such as a website or a mobile device, and the bank’s payment authorization system, through which payment transactions are processed
“Payment License”	payment business license issued by the PBOC (支付業務許可證)
“QR code”	Quick Response Code, a type of barcode that is machine-readable
“UnionPay”	China UnionPay (中國銀聯股份有限公司), the only bank card clearing house and bank card association in China. It operates an inter-bank transaction settlement system through which the connection and switch between banking systems and the inter-bank, cross-region usages of bank cards issued by associate banks may be realized
“web crawler”	a software application that browses the World Wide Web in a systematic way through automatic programs to update web content or indices
“SaaS” or “software as a service”	a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted



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## FORWARD-LOOKING STATEMENTS

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This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and 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 “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- general political and economic conditions, including those related to the PRC;
- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business operations and prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans; and
- various business opportunities that we may pursue.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. These risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that most of our operations are conducted in the PRC, which is governed by a legal and regulatory environment that may differ significantly from that of other countries. For more information concerning the PRC and certain related matters discussed below, see “Regulatory Environment” and “Appendix III—Summary of the Constitution of the Company and Cayman Companies Law.”*

*These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements.”*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### **Our rapid historical growth may not be sustainable or indicative of our future growth.**

China’s third-party payments industry has developed rapidly over the past five years. The total payment volume processed by third-party payment service providers in China has grown from RMB12.7 trillion in 2013 to RMB152.9 trillion in 2017, representing a CAGR of 86.3%, according to Frost & Sullivan. However, this industry may not develop as rapidly as expected going forward. The regulatory framework for this industry is evolving, and it is possible that PRC laws and regulations may change in ways unfavorable to the development of this industry. Potential investors may not be familiar with this relatively new industry.

Our business has grown substantially in recent years, but our past growth may not be indicative of our future growth. Our revenue grew from RMB555.7 million in 2015 to RMB1,094.8 million in 2016 and RMB1,726.3 million in 2017. In 2015, we incurred a net loss of RMB7.6 million, and grew to achieve a net profit of RMB118.7 million in 2016 and RMB132.8 million in 2017.

You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this developing and rapidly evolving market. We cannot assure you that we will be able to achieve the performance we achieved during the past. Investors should not solely rely on our historical financial information as an indication of our future financial or operating performance.

#### **Market, economic and other conditions in China may adversely impact the demand for our services.**

Payments industry in which we operate depends upon the overall level of economic conditions and consumer spending in China. A sustained deterioration in the general economic conditions in China, including any turmoil in the economy, reductions in household disposable income, distresses in financial markets, or reduced market liquidity, as well as increased government intervention, may reduce the number of our clients, especially micro and small merchants who are more susceptible to adverse changes in market, economic and regulatory conditions in China, the amount of payments

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## RISK FACTORS

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made by our clients' customers, and market demand for our fintech enabling services. As a result, our financial performance could be adversely affected.

Adverse market trends may adversely affect our financial performance. Such trends may include, but are not limited to, the following:

- the third-party payments industry has been affected by cycles of growth and contraction in consumer demand, reflecting prevailing economic and demographic conditions;
- low levels of consumer and business confidence typically associated with recessionary environments may cause reduced spending by cardholders;
- financial institutions may restrict credit lines to cardholders or limit the issuance of new cards to mitigate cardholder defaults; and
- government intervention, including the effects of laws and regulations on, and/or reduction in government investments in, our clients, may reduce the desire of our clients to use our services and solutions.

**If the industry quickly migrates from mobile POS services to mobile payment services, our results of operations and business prospects will be adversely affected.**

Our revenue from mobile POS services increased significantly during the Track Record Period, primarily due to our launch and promotion of *SuPay* mobile POS solution and the continued growth and popularity of mobile POS services among merchants and consumers in China. In 2017, our revenue from mobile POS services constituted a substantial majority of our total revenue. However, the rapidly evolving mobile payment market makes it difficult for potential investors to effectively assess the industry's prospects. We expect new services and technologies to continue to emerge and evolve in this market. Our failure to respond effectively to market and technology developments in mobile payments may materially and adversely affect our business prospects. Also see “—Failure to continually enhance our service and solution offerings or timely respond to the technological or other changes in the rapidly evolving third-party payments market could jeopardize our businesses and prospects.”

As the average fee rate for mobile payment services is significantly lower than that for mobile POS services, and we will continue to focus our business on developing and offering mobile POS solution, if the industry quickly moves away from mobile POS and migrates to mobile payments with a lesser need for mobile POS services and accessories, payment volume and revenue from our mobile POS services may decrease, which in turn could materially and adversely affect our results of operations and business prospects.

**We are subject to extensive regulatory requirements, and noncompliance with or changes to these regulatory requirements may affect our business operations and financial results.**

The third-party payments industry is highly regulated in China. The PRC government regulates the third-party payments industry extensively. A number of regulatory authorities, such as the PBOC, CSRC, SAFE and NDRC, oversee different aspects of the third-party payment business in China, and promulgate and enforce laws and regulations that cover POS, Internet payments, mobile POS, mobile payments and cross-border payments, including entry into such businesses, scope of permitted

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## RISK FACTORS

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activities, licenses and permits for various operations and pricing. The major laws and regulations that govern our business include or may in the future include those relating to payment services, such as payment processing and settlement, money transfer, foreign exchange, and anti-money laundering and financial consumer protection. See “Regulatory Environment.”

As the third-party payment in China is an emerging and evolving market, the applicable laws, rules, and regulations are continually developing and evolving. Any changes in the relevant rules and regulations may result in an increase in our cost of compliance, or might restrict our business activities. If we fail to comply with the applicable rules and regulations, we may face fines or restrictions on our business activities, or even a suspension or revocation of some or all of our licenses that allow us to carry on our business activities.

We are subject to regular and ad hoc regulatory inspections. If the results of the inspections reveal any noncompliance or misconduct, the regulatory authorities may take disciplinary action, such as imposing monetary fines, or even suspension or revocation of licenses. For example, PBOC Shanghai branch has carried out regulatory inspections during the Track Record Period and imposed fines on us for noncompliances identified in our business practices. See “Business—Legal and Regulatory Proceedings and Compliance—Regulatory Inspections.” In 2014, the PBOC took regulatory measures against several third-party payment service providers involved in a widespread risk incident, including us, and we were ordered to suspend our POS services in 15 provincial-level regions in China. See “Business—Risk Management—Enterprise Risk Management—Fraud Risk.” Any material disciplinary actions taken against or penalties imposed on us in the future could have an adverse impact on our business operations and financial results.

**If we fail to compete effectively, we may lose clients, which could materially and adversely affect our business, financial condition and results of operations.**

We operate in evolving markets characterized by fierce competition and continual changes in customer needs and industry standards, as well as frequent introductions of new services and solutions. Competition may intensify in the future as existing and new competitors introduce new services or enhance existing services.

Our primary competitors are other third-party payment service providers. Some of these companies have greater financial resources and larger customer bases than we do, which may provide them with significant competitive advantages. These companies may devote greater resources to the development, promotion and sale of services and solutions. They may also offer lower prices for their services and solutions, or more effectively introduce their own innovative services and solutions that could reduce our market share. Our competitors may offer more attractive terms to ISOs or other channel partners to gain better access to potential clients. Mergers and acquisitions by these companies may lead to even larger competitors with more resources. We face the risk that Alipay and Tenpay, the two largest third-party payment services providers in China, may start to provide customized payment solutions for industry verticals or quickly grow their payment services for micro and small merchants in the near future. They may leverage their huge customer base of individual users to increase their penetration to micro and small merchants. Competing services or solutions tied to their established brands may engender greater confidence in the technologies and innovation of their services or solutions. If we are unable to differentiate ourselves from and successfully compete with our competitors, our business will be materially and adversely affected. We also expect new market entrants to offer competitive services and solutions. In addition, the highly competitive nature of our industry could lead to increased pricing pressure, which could have a material impact on our overall business, financial condition, and results of operations.

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## RISK FACTORS

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**If we fail to maintain our relationships with ISOs and other channel partners, or to properly manage them, our business, financial condition, results of operations, risk management capabilities and reputation could be adversely affected.**

We rely heavily on our ISO network and other channel partners to develop and maintain relationships with merchants and to introduce our services to merchants in a manner that is consistent with our standards and applicable regulatory requirements. During the Track Record Period, substantially all of our micro and small merchant clients, which represent the vast majority of our clients, were originated by ISOs. During the Track Record Period, the aggregate payment volumes and revenue generated by these merchant clients accounted for 50.6% and 71.9%, respectively, of the total payment volumes we processed and the total revenue generated from merchant payment services during the Track Record Period.

Our ability to expand our client base through our ISO network while enhancing ISO management is critical for our operations. Our existing channel partner relationships do not, and any future channel partner relationships may not, provide for any exclusivity regarding the marketing or provision of our services. If we fail to maintain our ISO network and other channel partners, our business may be adversely affected. If our relationship with any significant ISO or channel partner were to deteriorate, we may be required to find alternatives or devote more resources to distribute our services directly and support our clients, which may not be as effective and could lead to higher costs, reduced revenue and growth.

Some of our ISOs and channel partners may market our services in an inappropriate manner as in violation of regulations or laws. If we fail to effectively monitor and manage them, we could be exposed to potential liability or regulatory scrutiny and our reputation, financial condition, results of operations could be adversely affected, and our reputation could be damaged.

**We rely on third parties, such as UnionPay, commercial banks as well as IT infrastructure and services providers, for a variety of services and support from their infrastructure. Any failure by these third parties to perform their obligations or services adequately or on acceptable terms could materially and adversely affect our business.**

To provide our payment services, we rely on technologies, services and infrastructure support offered by third parties that we do not control, such as UnionPay, the card issuing banks, other commercial banks and telecommunication operators. We rely on them for a variety of services, including transmitting transaction data, processing chargebacks and refunds, and facilitating same-day or instant settlement service. Our IT systems and various interfaces also utilize or are connected to the platforms, infrastructures and technologies of the third parties. If these third parties fail to provide services adequately, including as a result of system errors, human errors or events beyond their control, or they refuse to provide these services on terms acceptable to us or at all, and we are not able to find suitable alternatives, our business may be materially and adversely affected.

**The introduction of NetsUnion poses uncertainties and challenges that may adversely affect our results of operations, financial condition and prospects.**

In August 2017, the PBOC mandated the establishment of a nationwide centralized clearing platform, NetsUnion, for Internet and other network payments. Third-party payment service providers are required to forward such payments via this new platform starting from the second half of 2018, rather than directly connecting to the commercial banks. See “Regulatory Environment—Regulations

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on payment services of non-financial institutions—Regulations on Network Payment—Regulations on the establishment of China Nets Union Clearing Corporation” for details.

The introduction of NetsUnion may pose uncertainties and challenges to all market participants in the third-party payments industry. We cannot assure you regarding the compatibility, stability and efficiencies of NetsUnion’s systems. NetsUnion has indicated that it has no intention to charge a fee for its clearing and routing services, but we cannot assure you that this will not change in the future. Our services to clients could be jeopardized if NetsUnion fails to perform its function properly or our operating costs may increase if we incur additional expenses when using NetsUnion’s services, either of which could materially and adversely affect our business, financial condition and results of operations.

**Changes in the regulation on the centralized deposit and supervision of client reserve funds by the PBOC may adversely affect our interest income and client experience.**

Since April 2017, the PBOC has mandated all third-party payment service providers in China to deposit a certain percentage (between 10% and 20%) of client reserve funds to a centralized depository account supervised and monitored by the PBOC. While client reserve funds deposited in designated bank accounts are interest-bearing, all client reserve funds in the centralized depository account assigned by the PBOC no longer generate interest. In 2015, 2016 and 2017, our interest income, which is primarily derived from our client reserve funds, amounted to RMB26.1 million, RMB38.3 million and RMB61.6 million, respectively. On December 31, 2017, the PBOC announced plans to increase the percentage of centralized client reserve funds to up to 50% by April 2018. See “Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on the management of client reserve funds” for details. As an increasing proportion of our client reserve funds will be deposited with the centralized depository account, our interest income from client reserve funds may gradually decrease in 2018. If this percentage continues to increase, our interest income will decrease accordingly. According to a news article on the PBOC’s official website dated January 13, 2017, payment service providers will eventually be required to deposit all their client reserve funds into the centralized depository accounts. In addition, our settlement arrangements are subject to regulatory enforcement in the process of increasing the proportion of centralized deposits of client reserve funds, which may prolong the process for us to access the funds and affect our settlement efficiency, and negatively affect our ability to process a significant surge in payment volume during peak times, such as holiday seasons. This could adversely affect our processing costs and the client experience of our services.

**Fraudulent and fictitious transactions may pose severe challenges to our risk management capabilities and failure to identify those transactions and manage the related risks may adversely affect our business, financial condition, and results of operations.**

We offer payment and other services and solutions to a large number of merchants and we may be subject to liability for fraudulent payment transactions by merchants, their customers or others, in particular, fraudulent chargeback and use of counterfeit cards. The methods used to engage in illegal activities, such as counterfeiting and frauds, have become increasingly sophisticated. Incidents of frauds could increase in the future. Our measures to detect and reduce the risk of fraud need to be continually improved to be effective against new and evolving forms of fraud or in connection with new services and solutions which may incur substantial costs. Failure to effectively identify and address these risks could lead to losses, regulatory penalties or even regulatory restriction to our

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business operations, which will adversely affect our business, financial condition, and results of operations. See “Business—Risk Management—Enterprise Risk Management—Fraud Risk.”

**We could incur liabilities if our merchants or ISOs refuse or are unable, financially or otherwise, to reimburse us for chargebacks resolved in favor of the customers.**

In the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder’s favor, the disputed transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. Our agreements with the issuing banks and UnionPay rules require us to bear the losses from chargeback in certain circumstances. See “Business—Risk Management—Enterprise Risk Management—Fraud Risk—Chargeback.” If the merchant refuses or is unable to reimburse us for the chargeback due to merchant fraud, insolvency or other reasons, or if the ISO which developed the merchant refuses or is unable to reimburse us, we will bear the losses for the refunds to the cardholders. Where the purchased product or service is not provided until a later date following the purchase, such as an airline ticket, our exposure to potential liability increases. For instance, in 2015, we had an impairment of RMB70.7 million on our other receivables, primarily relating to certain widespread fraudulent card transactions in early 2014. Our impairment of other receivables was RMB43.6 million and RMB31.6 million in 2016 and 2017, respectively. We cannot assure you that we will not experience significant losses from chargebacks in the future. Any substantial increase in chargebacks not reimbursed by merchants could have a materially adverse effect on our business, financial condition and results of operations.

**Failure to continually enhance our service and solution offerings or timely respond to the technological or other changes in the rapidly evolving third-party payments market could jeopardize our businesses and prospects.**

The technologies used in, and the market environment for, third-party payment services and fintech enabling services are evolving rapidly. We expect new services and technologies to continue to emerge and evolve. They may be superior to or render obsolete our services or technologies. For example, traditional POS terminals are being replaced by smart POS terminals and mobile POS accessories. Incorporating new technologies into our services and solutions may require substantial expenditures and time, and we may not be successful in realizing a return for these efforts in a timely manner or at all. We cannot assure you that any new services and technologies we develop and offer to our merchants will achieve commercial acceptance. Failure to respond effectively to market developments may materially and adversely affect our business prospects.

In addition, since our services and solutions are designed to operate with a variety of systems, infrastructures and devices, we need to continually modify and enhance our services and solutions to keep pace with changes in mobile, Internet, software, communication and data technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely and cost-effective manner. Any failure of our services and solutions to continue to operate effectively with third-party infrastructures and technologies could result in the dissatisfaction of our merchants or their customers, which in turn could lead to a reduction in the demand for our services and solutions and consequent loss of revenue.

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**If we are unable to provide clients, especially micro and small merchants and companies in select industry verticals, with satisfactory experience or otherwise fail to maintain or enlarge our client base, our operations may be adversely affected.**

We believe that our client base is the core building block of our business and that our ability to provide clients with a satisfactory client experience is critical to our success. Continuing revenue growth depends in part on our ability to maintain and enlarge our client base, especially micro and small merchants and companies in select industry verticals. As of December 31, 2017, our client base reached over 5.8 million micro and small merchants, 1,500 Internet finance providers and 4,000 companies in various industry verticals in China. For 2015, 2016 and 2017, the revenue generated from our micro and small merchants and companies in select industry verticals was RMB478.9 million, RMB1,012.0 million and RMB1,622.8 million, respectively, accounting for 86.2%, 92.4% and 94.0%, respectively, of the total revenue of each year. These clients require services and solutions designed and constantly upgraded to meet their special and changing needs. If we fail to deliver a satisfactory and distinct client experience, we may lose our clients to our competitors, and in turn our business partners may find us less attractive for business cooperation and reduce or discontinue their cooperation with us, which may adversely affect our operations.

Our ability to provide clients with a satisfactory experience is subject to a number of factors, including our ability to continually innovate and improve our services and solutions to meet clients' evolving needs, and our access to and cooperation with high-quality business partners. If we are unable to provide clients with a satisfactory experience or otherwise fail to maintain or enlarge our client base, our operations may be adversely affected.

**Changes in the rules of UnionPay may adversely affect our results of operations and financial condition.**

In order to provide our payment services, we are registered with UnionPay as a member. As such, we are subject to the rules of UnionPay. Certain acts or omissions on our part, or our failure to prevent or manage certain acts or omissions by our third parties, such as ISOs, or our clients, could subject us to a variety of restrictive measures on our businesses or even termination of our membership of UnionPay. Any restrictive measures or termination of our membership registration, or any unexpected changes in UnionPay's rules or standards, including the interpretation and implementation of the rules or standards, that increase our operating costs or limit our ability to provide payment services to our clients, could have an adverse effect on our business, results of operations and financial condition.

**Changes to the regulations on pricing mechanism could raise the cost of service we provide, and adversely affect our results of operations and financial condition.**

The interchange fees charged by the clearing house and the fees charged by the issuing banks are subject to government regulation. See "Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on bankcard acquiring business—Pricing mechanism of bankcard transaction fee." Changes to the regulation may lead to the increase of these fees. Competitive pressures could result in us absorbing all or a portion of such possible increases in the future, which would increase our operating costs, reduce our profit margin and adversely affect our business, results of operations and financial condition.



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**Future rules and regulations affecting our clients may adversely affect our reputation, business and results of operations.**

Any significant changes of rules and regulations that govern our clients, especially those that impose more stringent regulatory burdens on our clients or disrupt their business model, may require more effort to change our business processes and services, which may adversely affect our results of operations.

For example, as of December 31, 2017, we provide account management and other fintech enabling services to over 1,500 Internet finance providers, principally online lending platforms, in China. As the online lending industry has a relatively short history in China, and the regulatory framework governing this industry is still under development, we cannot assure you that these clients' business practices would not be deemed to violate any future rules, laws and regulations or be disrupted due to regulatory changes or other compliance concerns. A disruption to our clients' businesses, or a termination of our clients' businesses due to our clients' regulatory noncompliance, could cause them to terminate our services, which in turn could result in loss of revenues and affect our reputation.

**Any failure to obtain and maintain requisite licenses or permits applicable to our business or any changes in government policies or regulations may have a material and adverse impact on our business, financial condition and operational results.**

According to the Administrative Measures for the Payment Services of Non-financial Institutions, to provide payment services, a non-financial institution must obtain a Payment License. Furthermore, our cross-border payment service permit and payment and settlement permit for fund sales are critical to our cross-border payment services and payment for mutual funds sales. As some of our fintech enabling services that are indispensable to our payment solutions fall within the scope of value-added telecommunication services, we are also required to obtain an ICP License.

We cannot assure you that we will be able to maintain our existing permits and licenses, including our Payment License and ICP Licenses, or obtain any new permits and licenses if required by any laws or regulations in the future. For a detailed discussion of certain licenses and permits relevant to our business, see "Business—Licenses and Permits." If we fail to obtain and maintain the approvals, licenses and permits required for our business, we could be subject to liabilities, penalties and operational disruption. We may also be liable for fines or a penalty of confiscating illegal gains.

**Our risk management and internal control systems may not be adequate or effective in all respects and could materially and adversely affect our business and results of operations.**

We seek to establish risk management and internal control systems, consisting of an organizational framework, policies, procedures and risk management methods, which are appropriate for our business operations, and seek to continue to improve these systems. However, due to the inherent limitations in the design and implementation of risk management and internal control systems, we cannot assure you that our risk management and internal control systems will be able to identify, prevent and manage all risks.

Our internal control procedures are designed to monitor our operations and ensure their overall compliance. However, our internal control procedures may be unable to identify all noncompliance incidents in a timely manner or at all. See "Business—Legal and Regulatory Proceedings and

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Compliance—Regulatory Inspections.” It is not always possible to timely detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective.

In addition, as some of our risk management and internal control policies and procedures are relatively new, we need more time to fully evaluate and assess their adequacy and effectiveness. As a result, we may need to establish and implement additional risk management and internal control policies and procedures to further improve our systems from time to time. We implement our risk management and internal controls by using a series of risk management methods. However, these methods also have their inherent limitations, as risk management methods are generally based on the statistical analysis of historical data as well as assumptions that risks in future periods share characteristics similar to risks in past periods. We cannot assure you that such assumptions are always reliable. In addition, although we have established what we believe to be an advanced information technology system and have the benefit of an accumulation of industry and company data, our information technology system may not be adequate in the collection, analysis and processing of this data, and our historical data and experience may not be able to adequately reflect risks that may emerge from time to time in the future. As a result, our risk management methods and techniques may not be effective in directing us to take timely and appropriate measures in risk management and internal controls.

Our risk management and internal controls also depend on their effective implementation by our employees. Due to the large size of our operations, we cannot assure you that such implementation will not involve any human errors or mistakes, which may materially and adversely affect our business and results of operations.

As the regulatory framework of the PRC third-party payments industry continues to evolve and the PRC third-party payments industry continues to develop, we are likely to offer a broader and more diverse range of services and solutions in the future. The diversification of our service offerings will require us to continue to enhance our risk management capabilities. If we fail to timely adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected.

Our risk management also relies upon third-party information as a data source for verification, such as customers’ identification information, phone numbers, and bank card information, obtained from public agencies or authorized third parties. We cannot assure you that such information is always accurate, and any inaccuracy may affect the proper function of our risk management system.

**Malfunctions of our technology systems, errors in our software, hardware, and systems, or human errors in operating these systems, could disrupt and jeopardize our businesses.**

Our business is dependent on the ability of our information technology systems to timely process a large amount of information and transactions. Our software, hardware, and systems may contain undetected errors that could have a material adverse effect on our business, particularly to the extent such errors are not detected and remedied quickly. We have from time to time found defects in our customer-facing software and hardware, internal systems, and technical integrations with third-party systems of our channel partners, and new errors may be introduced in the future. In addition, we provide frequent incremental releases of service updates and functional enhancements, which increase the possibility of errors. The payment services and solutions we provide are designed to process

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complex transactions and deliver reports and other information related to those transactions, all at high volumes and processing speeds. Since customers use our services for important aspects of their businesses, any errors, defects, disruptions in services, or other performance problems with our services could hurt our reputation and damage our clients' businesses. Software and system errors, or human error, could delay or inhibit settlement of payments, result in oversettlement, cause reporting errors, or prevent us from collecting transaction fees, all of which have occurred in the past, but have not caused significant disruptions to our operations. Similarly, security breaches or errors in our hardware could cause transaction failures. Such issues could result in lawsuits and other liabilities and losses, which could have a material and adverse effect on our business.

**Failure to protect transaction information and data from continually evolving cybersecurity risks could affect our reputation and may expose us to penalties, liabilities and legal claims.**

While providing our services and solutions, we process transaction information and personal information relating to our merchants and merchants' customers, some of which may be sensitive. Such information may include credit and debit card numbers, bank account numbers, names and addresses, and other types of personal information or sensitive transaction information. While processes and procedures are in place to protect such data, we cannot assure you that these measures will be successful and sufficient to counter all current and emerging technology threats that are designed to breach our systems in order to gain access to confidential information.

Our computer systems are subject to illegal penetration, and our data protection measures may not prevent unauthorized access. The techniques used to obtain unauthorized access, or to disable or degrade services, or to sabotage systems, change frequently and are often difficult to detect. Threats to our systems and our associated third parties' systems can derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. Computer viruses can be distributed and could infiltrate our systems or those of our associated third parties. In addition, denial of service or other attacks could be launched against us for a variety of purposes, including to interfere with our services or create a diversion for other malicious activities. Our defensive measures may not prevent unauthorized access or use of sensitive data. We currently do not maintain insurance coverage that covers cyber risks and we may incur losses.

We could also be subject to liability for claims relating to misuse of personal information, such as unauthorized marketing purposes and violation of data privacy laws. We have undertaken in some agreements to take certain protective measures to ensure the confidentiality of merchant and consumer data. Any failure to adequately enforce or provide these protective measures could result in liability, protracted and costly litigation and, with respect to misuse of the personal information of our merchants clients and their consumers, lost revenue and reputational harm.

Any type of security breach, cyberattack or misuse of data described above or otherwise could harm our reputation and deter existing and prospective clients from using our services or from providing payment services generally, increase our operating expenses in order to contain and remediate the incident, expose us to unbudgeted or uninsured liability, disrupt our operations, divert our management attention, increase our risk of regulatory scrutiny, result in the imposition of penalties and fines under laws and regulations, and adversely affect our cooperation with financial institutions.

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**Our business is subject to complex and evolving regulations and oversight related to data security.**

Our services involve the storage and transmission of merchant identification information, merchant and customer transaction information, sensitive information, etc., which are protected under PRC law. The PRC government has various regulations in place restricting companies from collecting and using protected data. See “Regulatory Environment—Regulations on value-added telecommunication business—Regulations on information security and privacy protection.” Under applicable laws and regulations, we are obliged to keep protected customer information confidential in accordance with the law and not to disclose it to the public. With the promulgation of new laws concerning data security and information protection in the future, we may incur more expenditure on the upgrading and improvement of our data security mechanisms from both technological and management aspects in order to comply with increasingly stricter requirements. If we fail to comply with these laws and regulations, we may be subject to fines or other penalties.

**If we fail to prevent the loss or misappropriation of our intellectual property rights, we may lose our competitive edge, and the value of our services and our brand, and our reputation and operations, may be materially and adversely affected.**

Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, a combination of confidentiality, invention assignment, and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, domain name, copyright, trade secret, and patent rights, to protect our brand and other intellectual property rights. However, various events outside of our control may pose a threat to our intellectual property rights, as well as to our services and solutions. Effective protection of trademarks, copyrights, domain names, patent rights, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and maintenance costs and in terms of the costs of defending and enforcing those rights. The efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Our intellectual property rights may be infringed, misappropriated, or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. Similarly, our reliance on unpatented proprietary information and technology, such as trade secrets and confidential information, depends in part on agreements we have in place with employees and third parties that place restrictions on the use and disclosure of this intellectual property. These agreements may be insufficient or may be breached. In either case this could potentially result in the unauthorized use or disclosure of our trade secrets and other intellectual property, including to our competitors. As a result, we could lose the competitive advantage derived from the intellectual property. Significant impairments of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could have a material and adverse effect on our business.

**We may be subject to intellectual property infringement claims or other allegations by third parties, which may materially and adversely affect our business, results of operations and prospects.**

We depend to a large extent on our ability to develop and maintain the intellectual property rights relating to our business. We cannot be certain that third parties will not claim that our business infringes upon or otherwise violates patents, copyrights or other intellectual property rights that they hold. We may be involved in litigation in respect of our technology-based services in relation to allegations of infringement of intellectual property rights, unfair competition, invasion of privacy,

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defamation and other violations of other parties' rights. The validity, enforceability and scope of protection of intellectual property rights, particularly in China, are still evolving. We may face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors, or allegations that we are involved in unfair trade practices. As we face increasing competition and as litigation becomes a more common method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources, and favorable final outcomes may not be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our services to reduce the risk of future liability, may have a material adverse effect on our business, results of operations and prospects.

### **Our cross-border payment services are exposed to foreign exchange rate risk.**

Our cross-border payment services are exposed to foreign exchange rate risk since the exchange rate we quote and the exchange rate for the actual settlement may differ, due to exchange rate fluctuation. We typically earn a foreign exchange gain when the exchange rate for the actual settlement becomes more favorable to us, and we incur a foreign exchange loss when the contrary is the case. We implement certain measures to mitigate such risk although we do not enter into hedging transactions as our cross-border payment volume is relatively small compared with the total payment volumes processed. We cannot predict or control the fluctuation of exchange rates and our result of operations may be adversely affected if there is a significant fluctuation in foreign exchange rates that is unfavorable to us.

### **Acquisitions, strategic investments, strategic alliance, entries into new businesses, and divestitures could disrupt our business, divert management attention, result in additional dilution to our stockholders, and harm our business.**

We plan to acquire payment-related technology companies, small and medium-sized overseas payment service providers and SaaS providers. See "Business—Our Strategies." The identification, evaluation and negotiation of potential acquisitions, alliances or divestitures may divert the attention of management and entail various expenses, whether or not such transactions are ultimately completed. If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations, and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired businesses due to a number of factors, including difficulties resulting from the integration of technologies, IT systems, accounting systems, culture or personnel; diversion of management attention; litigation; use of resources; or other disruptions of our operations. Regulatory constraints, particularly competition regulations, may also affect the extent to which we can maximize the value of our acquisitions or investments. To the extent the acquisitions are financed by equity or debt issuances, such acquisition financings could result in the dilution of our shareholders' equity interests or in debt covenants that impose restrictions on our businesses. In addition, we may spend time and money on acquisitions or investments that do not increase our revenue. If an acquired business fails to meet our expectations, our business may be materially and adversely affected.

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### **We may face challenges in developing our international operations.**

We plan to expand our operations into global markets. However, we will face risks associated with expanding into markets in which we have limited or no experience and in which our company may be less well known. We may be unable to attract sufficient merchants, fail to anticipate competitive conditions or face difficulties in operating effectively in these new markets. The expansion of our international operations will also expose us to risks inherent in transacting business globally, including:

- increased and conflicting regulatory compliance requirements, including those with respect to money laundering and economic or other sanctions imposed by overseas and domestic regulatory authorities;
- increased costs to protect intellectual property and personal data security;
- challenges and increased expenses associated with staffing and managing international and cross-border operations and managing an organization spread over various jurisdictions;
- inability to recruit international talent and challenges in replicating or adapting our company policies and procedures to operating environments different from those in China;
- exchange rate fluctuations; and
- political instability and general economic or political conditions in particular countries or regions.

As we expand further into new regions and markets, these risks could intensify. One or more of these factors could adversely impact our international operations. Accordingly, any efforts we make to expand our international operations may not be successful.

### **Our success largely depends on senior management, as well as our experienced and capable employees. The loss of senior management or other functional team heads could severely and adversely affect our business.**

Our future success is significantly dependent upon the continued service of our senior management and other experienced and capable employees. We depend upon the ability and experience of a number of our senior management who have significant experience with our operations, the rapidly changing third-party payments industry and the selected markets in which we offer our services and solutions. The loss of the services of one or a combination of our senior management or key employees could have a material adverse effect on our results of operations.

To maintain and grow our business, we will need to identify, hire, develop, motivate and retain highly skilled employees, which requires significant time, expense, and attention. In addition, from time to time, there may be changes in our management team that may be disruptive to our business. If our management team members, including any new hires that we make, fail to work together effectively and to execute our plans and strategies on a timely basis, our business could be harmed. Competition for highly skilled personnel is intense. We may need to invest significant amounts of expense and other efforts to attract and retain new employees, and we may never realize returns on these investments. If we are not able to add and retain employees effectively, our ability to achieve our strategic objectives will be adversely affected, and our business and growth prospects will be harmed.

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**Any discontinuation, reduction or delay of any of our preferential tax treatments or government grants that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.**

We have received government grants and tax preferences from the PRC government. In 2015, 2016 and 2017, we recognized government grants of RMB46.4 million, RMB29.7 million and RMB31.8 million, respectively, primarily for our research and development activities. Our subsidiary, PnR Data, which generated most of our revenue in the past, is qualified as a high and new technology enterprise and entitled to a preferential income tax rate of 15%. Additionally, PnR Data was also qualified as a key software enterprise for 2016 and 2017 and entitled to a further reduced income tax rate of 10%. During the Track Record Period, our lower tax rates enacted by local authorities were RMB2.1 million, RMB24.0 million and RMB34.1 million in 2015, 2016 and 2017, respectively.

Government grants are made at the sole discretion of the relevant governmental authorities, subject to change and termination. The preferential tax rates enjoyed by us are non-recurring in nature, and the government agencies may decide to reduce, eliminate or cancel such subsidies and tax preferences at any time. Therefore, we cannot assure you of the continued availability of the government grants and tax preferences currently enjoyed by us. The discontinuation, reduction or delay of these governmental grants and preferential tax treatment could adversely affect our financial condition and results of operations.

**Our adjusted net current liabilities may expose us to certain liquidity risks and could constrain our operational flexibility as well as adversely affect our ability to expand our business.**

As of December 31, 2015, 2016 and 2017, we had adjusted net current liabilities (exclusive of client reserve funds) of RMB35.9 million, RMB353.1 million, RMB654.2 million, respectively. In line with our capital management policy, we incurred short-term liabilities, such as bank borrowings, payables for the acquisition of building and trade payables, to finance our purchase of long-term assets, such as our headquarters building, payment terminals and certain long-term investment products. See “Financial Information—Liquidity and Capital Resources—Assets and Liabilities—Current assets and liabilities and adjusted current assets and liabilities.” We may continue to have adjusted net current liabilities in the future. Significant adjusted net current liabilities could constrain our operational flexibility and adversely affect our ability to expand our business. Our future liquidity, payment of trade payables, and bank and other borrowings will primarily depend on our ability to maintain adequate cash inflows from our operating activities and adequate external financing. If we cannot maintain our sources of funding timely and on reasonable terms, or at all, we may face liquidity issues and our business, financial condition and results of operations may be materially and adversely affected.

**The fair value measurement of our available-for-sale investments is subject to uncertainties and risks and our results of operations may be adversely affected.**

During the Track Record Period, we purchased certain investment products to increase our returns on surplus cash as part of our cash management activities, as well as made investments in certain private companies, which are both classified as available-for-sale investments. As of December 31, 2015, 2016 and 2017, our available-for-sale investments amounted to RMB133.2 million, RMB310.8 million and RMB82.4 million, respectively. Available-for-sale investments are measured at fair value, and gains or losses arising from changes in the fair value of our available-for-sale investments are included in our consolidated statements of profit or loss and other comprehensive

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income in the period in which they arise. In 2015, 2016 and 2017, we had RMB6.8 million, RMB22.4 million and RMB29.1 million of investment income on available-for-sale investments. The fair value measurement of our available-for-sale investments is subject to uncertainties and risks, such as changes in market and industry conditions and operation performance of the private companies in which we invested. We cannot assure you that we will continue to enjoy fair value gains on our available-for-sale investments at previous levels or at any level at all, or that the fair value of our available-for-sale investments will not decrease in the future. Any decrease in the fair value of our available-for-sale investments may have an adverse impact on our consolidated statements of profit or loss and other comprehensive income, which could in turn adversely affect our results of operations.

**We had negative net cash flows from operating activities in 2015 and 2016. If we have negative operating cash flows in the future, our liquidity and financial condition may be adversely affected.**

We had negative net cash flows from operating activities of RMB46.2 million and RMB439.3 million in 2015 and 2016, respectively. Our net cash used in operating activities in 2015 primarily reflected (i) an increase in our restricted cash (exclusive of cash received on behalf of clients) as a result of cash drawdowns from our banking facilities to enhance client experience and avoid potential delays in our settlement services during holiday seasons starting from the end of 2015, and (ii) an RMB68.5 million decrease in trade payable as a result of the decreased payment volume we processed in 2015. Our net cash used in operating activities in 2016 primarily reflected an increase in our restricted cash (exclusive of cash received on behalf of clients) as a result of an increase in the amount of drawdowns from our banking facilities to enhance client experience and avoid potential delays in our settlement services during holiday seasons starting from the end of 2016. See “Financial Information—Liquidity and Capital Resources—Cash Flows”. Although we had positive net cash flow generated from operating activities in 2017, we cannot assure you that we will be able to generate positive cash flows from operating activities in the future. If we record net operating cash outflows in the future, our working capital may be constrained which may adversely affect our financial condition.

**We have limited insurance coverage and may incur losses resulting from business interruptions.**

We do not have any business interruption insurance. Based on the insurance products available in China, even if we decide to take out business interruption coverage, such insurance as is currently available offers limited coverage compared with that offered in many other jurisdictions. Any business disruption or natural disaster could result in our incurring substantial costs and diversion of resources, which would have an adverse effect on our business and results of operations.

**We are subject to anti-money laundering laws and regulations.**

We are required by the PBOC to comply with certain anti-money laundering requirements, including the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to public security departments and judicial authorities in investigations and proceedings in relation to anti-money laundering matters. These laws and regulations require us to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting obligations. The anti-money laundering policies and procedures we have adopted may not be effective in protecting our services from being exploited for money laundering purposes. Our failure to comply with the laws and regulations will subject us to fines or other penalties



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levied by regulators, which may negatively affect our results of operations. See “Business—Legal and Regulatory Proceedings and Compliance—Regulatory Inspections.” If the remedial measures we have undertaken prove to be ineffective or are deemed by the regulators as ineffective in the future, we may be subject to fines or other penalties, which may adversely affect our results of operations. We cannot assure you that there will not be failures in detecting money laundering or other illegal or improper activities, which may materially and adversely affect our business reputation, financial condition and results of operations.

**Legal defects regarding some of our leased properties may adversely affect our business, financial condition and results of operations.**

As of the Latest Practicable Date, we had not obtained the building ownership certificate for our headquarters building since the developer of the building is still in the process of obtaining the ownership certificate. As of the same date, lessors of five of our leased properties in China had not provided us with valid title certificates, valid title certificates for commercial purpose or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and we may not be able to continue to use such properties if the title of such properties or the respective lessors’ right to lease such properties is challenged by any third party. See “Business—Properties.” Furthermore, there is no assurance that we can renew the lease on commercially acceptable terms upon expiry, or at all. If the title of any of our leased property is controversial or the validity of the relevant lease is challenged by any third party, or if we fail to renew our lease upon expiry, we may be compelled to relocate from the affected premises. Such relocation may result in additional expenses or business interruption, which could in turn have an adverse effect on our business, financial condition and results of operations.

**Legal proceedings against us could harm our reputation and have a material adverse effect on our business, results of operations, financial condition and prospects.**

We were involved in litigations and other disputes in the ordinary course of our business, which include lawsuits, arbitration, regulatory proceedings and other disputes. Along with the growth and expansion of our business, we may be involved in litigations, regulatory proceedings and other disputes arising outside the ordinary course of our business. Such litigations and disputes may result in claims for actual damages, freezing of our assets and diversion of our management’s attention, as well as legal proceedings against our Directors, officers or employees. The probability and amount of liability, if any, may remain unknown for long periods of time. Given the uncertainty, complexity and scope of many of these litigation matters, their outcome generally cannot be predicted with any reasonable degree of certainty. As a result, any unfavorable final resolution of pending litigation matters, including substantial liabilities arising from lawsuit judgments, could have a material adverse effect on our business, results of operations and financial condition. Moreover, even if we eventually prevail in these matters, we could incur significant legal fees or suffer significant reputational harm, which could have a material adverse effect on our prospects and future growth, including our ability to attract new customers, retain current customers, expand our partnership with existing or new business partners and recruit and retain employees and agents.

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**The use of our English and Chinese names, English Approved Name and Chinese Corporate Name by our Company in this prospectus and in the course of trade or business in Hong Kong may be challenged due to potential third-party trademark infringement and/or passing off claims. As a result, we may not be able to benefit from our well-known brand name.**

Our origins traced back to 2006 when China PnR (匯付天下有限公司), one of our Operating Entities, was incorporated under the laws of the PRC and our brand names have been well recognized in the market through years of business development. Our Company was incorporated in the Cayman Islands and named as Huifu Limited (匯付天下有限公司) in December 2017.

On February 28, 2018, our Company was registered in Hong Kong under Part 16 of the Companies Ordinance as a registered non-Hong Kong company under its names, i.e., Huifu Limited in English and 匯付天下有限公司 in Chinese (the “**Chinese Corporate Name**”). In the meantime, we understood from the Registrar of Companies that our English corporate name registered under Part 16 of the Companies Ordinance was “the same as” the English name of “Hui Fu Company Limited (匯富通訊有限公司)”, another company already registered under the Companies Ordinance or the predecessor Ordinance (i.e., the Companies Ordinance (Cap 32)). We also noted that a trademark “滙付通” has been registered by another company with the Hong Kong Registrar of Trade Marks.

As a result, we applied to the Registrar of Companies and the Registrar of Companies has approved “Huifu Payment Limited” as our business name which is the name we will use to carry on business in Hong Kong pursuant to section 782 of the Companies Ordinance (the “**English Approved Name**”).

By adopting an English Approved Name in Hong Kong, which is different from the Company’s English name, we may not be able to benefit from our well-known brand name in the PRC. Notwithstanding steps taken above to minimize the risks arising from trademark infringement and/or passing off claims, we cannot assure you that the third-party local company(ies) will not make any claims against us. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operation. We are not able to exert any control or influence over how third parties, including the press and media, refer to us. In addition, should we be held liable for trademark infringement or passing off (as the case may be), our reputation as well as our business, financial condition and results of operation may be materially and adversely affected, and our Company may have to change our corporate names, English Approved Name and/or Chinese Corporate Name (as the case may be).

**Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may materially and adversely affect our business, financial condition and results of operations.**

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or

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other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may materially and adversely affect our business, financial condition and results of operations.

### RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government finds that the agreements establishing the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or should these regulations or the interpretations change, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interests in our Operating Entities.**

Current PRC laws and regulations impose certain restrictions on foreign ownership of companies that engage in fintech enabling services, and it is impractical and unprecedented for a foreign investor or foreign-invested enterprise to be granted a Payment License, which permits such enterprise to provide payment services.

We are a company incorporated under the laws of the Cayman Islands, and PnR Network, our WFOE, is currently not eligible to apply for the required licenses for providing fintech enabling services and payment services in China. To comply with PRC laws and regulations, we conduct substantially all of our fintech enabling services and payment business in China through the Contractual Arrangements, which enable us to (i) have the power to direct the activities that most significantly affect the economic performance of the Operating Entities; (ii) receive substantially all of the economic benefits from the Operating Entities in consideration for the services provided by the WFOE; (iii) have an exclusive option to purchase all or part of the equity interests in the Operating Entities when and to the extent permitted by PRC law, or request any Registered Shareholder to transfer all or part of the equity interest in the Operating Entities to another PRC person or entity designated by us at any time at our discretion; and (iv) have the pledged equity interests in the China PnR to ensure the performance of the above items. Because of these Contractual Arrangements, we are the primary beneficiary of the Operating Entities and hence treat each of the Operating Entities as our consolidated variable interest entities, and consolidate their results of operations into ours.

Our PRC Legal Advisors, based on their understanding of the relevant laws and regulations, are of the opinion that our Contractual Agreements do not violate, breach, contravene or otherwise conflict with any applicable PRC law, rule or regulation and constitute valid and binding obligations enforceable against each party to such agreements in accordance with their terms. However, our PRC Legal Advisors also advised that as there are substantial uncertainties regarding the interpretation and application of the PRC laws, rules and regulations, including but not limited to, those governing our business, or the enforcement and performance of our Contractual Arrangements, there can be no assurance that the PRC government would ultimately take a view that is consistent with the opinion of our PRC Legal Advisors. If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our businesses, the relevant PRC regulatory authorities, including the PBOC, China Banking Regulatory Commission, MIIT and MOFCOM would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;

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- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and consolidated variable interest entity may not be able to comply;
- requiring us or our PRC subsidiaries and consolidated variable interest entity to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the proceeds from the initial public offering or other of our financing activities to finance the business and operations of our consolidated variable interest entity and their respective subsidiaries; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government's actions would have on us and on our ability to consolidate the financial results of any of our Operating Entities in our consolidated financial statements, if the PRC governmental authorities find our legal structure and Contractual Arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of the Operating Entities that most significantly affect their economic performance and/or our failure to receive economic benefits from the Operating Entities, we may not be able to consolidate the Operating Entities into our consolidated financial statements in accordance with IFRS.

**We rely on Contractual Arrangements for our business operations in China, which may not be as effective in providing operational control or enabling us to derive economic benefits as through direct ownership of controlling equity interest. Our Operating Entities or the Registered Shareholders may fail to perform their obligations under our Contractual Arrangements, which could adversely affect our results of operations and financial condition.**

As of the Latest Practicable Date, due to the fact that (i) there exist PRC restrictions on foreign ownership of fintech enabling businesses in China, and (ii) the regulatory authority has not promulgated any detailed requirements and measures for the implementation of the change of domestic institutions which have obtained Payment Licenses into foreign-invested payment institutions, we conduct substantially all of our fintech enabling service and payment business in China through the Contractual Arrangements. These Contractual Arrangements are intended to provide us with effective control over our Operating Entities and allow us to obtain economic benefits from them. In 2015, 2016 and 2017, revenue from China PnR accounted for approximately all of our total revenue, among which, PnR Data accounted for 98.0%, 98.8% and 99.8%, respectively, of our total revenue for the same period. See "Contractual Arrangements."

Although we have been advised by our PRC Legal Advisors that our Contractual Arrangements constitute valid and binding obligations enforceable against each party to such agreements in accordance with their terms, these Contractual Arrangements may not be as effective as direct ownership would be in providing control over our Operating Entities. If our Operating Entities or their Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and provide for the resolution of disputes through arbitration in the PRC. However, the legal system in

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China is not as developed as in other jurisdictions. There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration. These uncertainties could limit our ability to enforce the Contractual Arrangements. In the event we are unable to enforce the Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Operating Entities and may lose control over the assets owned by our Operating Entities. As a result, we may be unable to consolidate our Operating Entities in our consolidated financial statements, and our ability to conduct our business may be adversely affected.

**We may cease to benefit from assets and licenses held by our Operating Entities that are critical to the operation of our business if our Operating Entities were to declare bankruptcy or become subject to a dissolution or liquidation proceeding.**

We do not have priority pledges and liens against the assets of our Operating Entities. If any of our Operating Entities undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on the assets of our Operating Entities. If our Operating Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by our Operating Entities to PnR Network under the applicable service agreement.

If the Registered Shareholders of our Operating Entities were to attempt to voluntarily liquidate our Operating Entities without obtaining our prior consent, we may prevent such unauthorized voluntary liquidation by exercising our right to request the Registered Shareholders to transfer all of their respective equity interests to a PRC entity or individual designated by us in accordance with the Exclusive Option Agreement with the Registered Shareholders. In addition, under the Contractual Arrangements, the Registered Shareholders do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of China PnR without our consent. In the event that the Registered Shareholders initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of our Operating Entities without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

**The Registered Shareholders may potentially have a conflict of interest with us, and they may breach or attempt to amend their contracts with us in a manner contrary to our interests.**

We have designated individuals who are PRC nationals to be the ultimate shareholders of China PnR. These individuals may have conflicts of interest with us. China PnR is approximately 60% owned by the Registered Shareholders, i.e., Mr. ZHOU Ye (周擘) (a Director and senior management member of our Company), 15% owned by Mr. LIU Gang (劉鋼) (a director of one of our subsidiaries), 10% owned by Ms. MU Haijie (穆海潔) (a Director and senior management member of our Company), 5% owned by Mr. ZHANG Ge (張戈) (our employee), 5% owned by Ms. XU Zhuomin (徐卓敏) (our employee), and 5% owned by Ms. CHEN Yan (陳艷) (our employee). Conflicts of interest may arise between the roles of Mr. ZHOU Ye (周擘), Mr. LIU Gang (劉鋼) and Ms. MU Haijie (穆海潔) as ultimate shareholders, directors and/or officers of our Company and as shareholders, directors and/or

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officers of China PnR. We rely on these individuals to abide by the laws of the Cayman Islands which impose fiduciary duties upon directors and officers of our Company. Such duties include the duty to act bona fide in what they consider to be in the best interest of our company as a whole and not to place themselves in a position in which there is a conflict between their duties to our Company and their personal interests. On the other hand, PRC laws also provide that a director or a management officer owes a duty of loyalty and fiduciary duty to the company he or she directs or manages. We cannot assure you that when conflicts arise, the Registered Shareholders will act in the best interests of our Company or that conflicts will be resolved in our favor. These individuals may breach or cause the Operating Entities to breach the Contractual Arrangements. If we cannot resolve any conflicts of interest or disputes between us and the Registered Shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

**Our Contractual Arrangements with our Operating Entities may result in adverse tax consequences to us.**

We could face material and adverse tax consequences if the PRC tax authorities determine that our Contractual Arrangements were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) increasing the tax liabilities of our Operating Entities without reducing the tax liability of our subsidiaries, which could further result in late payment fees and other penalties to our Operating Entities for underpaid taxes; or (ii) limiting the ability of our Operating Entities to obtain or maintain preferential tax treatments and other financial incentives.

**Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the Draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.**

***Background of the Draft Foreign Investment Law***

In January 2015, the MOFCOM published the Draft Foreign Investment Law for public review and comment aimed at, upon its enactment, replacing the three existing laws regulating foreign investment in China; namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. The Draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While the MOFCOM solicited comments on this draft in early 2015, the Draft FIL is currently in draft form only, and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or "FIE". The Draft Foreign Investment Law specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor, provided that

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the entity is “controlled” by PRC entities and/or citizens. In this connection, “foreign investors” refers to the following subjects making investments within the PRC: (i) natural persons without PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; and (iv) international organizations. Domestic enterprises under the control of those mentioned in (i) to (iv) of the preceding sentence are deemed foreign investors. “Control” is broadly defined in the draft law to cover the following categories: (i) holding, directly or indirectly, not less than 50% of the shares, equities, share of voting rights or other similar rights of the subject entity; (ii) holding, directly or indirectly, less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision-making bodies, or having the voting power to exert material influence on the board, shareholders’ meetings or other equivalent decision-making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in the Catalog of Special Administrative Measures, which is classified into the Catalog of Prohibitions and the Catalog of Restrictions, which is to be separately issued by the State Council. Foreign investors are not permitted to invest in any sector set forth in the Catalog of Prohibitions. However, unless the underlying business of the FIE falls within the Catalog of Restrictions or Catalog of Prohibitions, which calls for market entry clearance by MOFCOM, prior approval from governmental authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

### ***Impact of the Draft Foreign Investment Law on VIE***

The variable interest entity (“VIE”) structure has been adopted by many PRC-based companies, including ourselves, to obtain the necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. Under the Draft Foreign Investment Law, VIEs that are controlled via contractual arrangements would also be deemed as FIEs if they are ultimately “controlled” by foreign investors. Therefore, for any company with a VIE structure in an industry category that is in the Catalog of Restrictions or Catalog of Prohibitions, the VIE structure may be deemed a domestic investment only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationality, then the VIEs will be treated as FIEs, and any operation in the industry category in the Catalog of Restrictions or Catalog of Prohibitions without market entry clearance may be considered illegal.

It is uncertain whether we would be considered by the PRC government as ultimately controlled by Chinese parties or not. In addition, the Draft Foreign Investment Law does not indicate what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC entities and/or citizens. If the enacted version of the Foreign Investment Law and the final “catalog of special administrative measures” mandate further actions, such as MOFCOM market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with an existing VIE structure like ourselves, we face substantial uncertainties as to whether these actions can be timely completed, or at all, and our Contractual Arrangements, in the worst-case scenario, may be regarded as invalid and illegal, which may materially and adversely affect our business and financial condition. If, after the Listing, we fail to comply with the finalized Foreign Investment Law if and when it becomes effective, we may be required to dispose of our business under the Contractual Arrangements or make necessary corporate

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structure adjustment so as to comply with the finalized Foreign Investment Law. In one of the worst scenarios, if we are not able to maintain a sustainable business after the disposal or corporate structure adjustment, we may be delisted from the Stock Exchange.

### *Potential Consequences for our Group*

All the Pre-IPO Investors are international institutional investors and none of them is controlled, as provided in the definition of “control” by PRC Nationals. Given the fact that the Pre-IPO Investors hold approximately 86% of our Shares as of the Latest Practicable Date, we are unable to demonstrate that we are controlled by PRC Nationals at the shareholder level.

Also, it is impracticable to coordinate our shareholders to undertake that, in the event of any transfer or disposal of their respective Shares of the Company, they will ensure that the transferee(s) provide an undertaking that they will only transfer their respective interest in us to PRC Nationals or similar undertakings, as all the Pre-IPO Investors are international institutional investors that would need to realize their investment values sooner or later, while giving this undertaking will substantially reduce their investment values and make it impracticable to dispose of their Shares in us in the open market.

After seeking advice from our PRC Legal Advisors, we have adopted a series of arrangements to mitigate any potential risk and fulfill the relevant requirements under the Draft FIL regarding the control by PRC entities and or citizens, by ensuring that the majority of our members of the Board will consist of PRC Nationals. See “Contractual Arrangements.” However, such arrangements and measures may restrict the range of candidates for directors from which shareholders could choose. Such arrangements and measures may not be effective since the Draft FIL has not been finalized and requirements under the final Foreign Investment Law may be different from those set out in the Draft FIL.

Our Company undertakes that it will, after consulting with our PRC Legal Advisors and based on their advice, disclose (i) updates of changes to the Draft FIL that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the final FIL as implemented, any specific measures taken by our Company to fully comply with the final FIL and any material impact of the final FIL on our Company’s operations and financial position, as soon as practicable.

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

Pursuant to the Contractual Arrangements, PnR Network or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in China PnR from the Registered Shareholders.

The equity transfer may be subject to approvals from and filings with the MIIT, the PBOC, the MOFCOM and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. The Registered Shareholders will pay the equity transfer price they receive to PnR Network under the Contractual Arrangements. The amount to be received by PnR Network may also be subject to enterprise income tax. Such tax amounts could be substantial.



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### RISKS RELATING TO DOING BUSINESS IN CHINA

**Adverse changes in political and economic policies of the PRC government could have a material effect on the overall economic growth of China, which could reduce the demand for our services and materially and adversely affect our competitive position.**

Substantially all of our operations are located in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by the general political, economic and social conditions in China and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, and economic reforms have resulted in significant economic growth in China in the past few decades, any economic reform policies in China may from time to time be modified or revised. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on the pace of economic growth. Any prolonged slowdown in the Chinese economy may reduce the demand for our services and materially and adversely affect our business and results of operations.

**The PRC legal system is not fully developed, and there are inherent uncertainties that may affect the protection afforded to our business and our shareholders. The PRC legal system embodies uncertainties which could limit the legal protections available to us.**

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries and consolidated variable interest entity are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new, and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform, and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available to us than

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in more developed legal systems. Furthermore, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Such uncertainties, including over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China, could materially and adversely affect our business and impede our ability to continue our operations.

**Government control of currency conversion and future fluctuation of Renminbi exchange rates could have a material adverse impact on our results of operations and financial condition, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.**

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

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

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

The proceeds from the Global Offering will be received in HK dollars. As a result, any appreciation of the Renminbi against the HK dollar may result in a decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, the Shares in foreign currency terms. In addition, there are

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limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

**We may be classified as a PRC resident enterprise for PRC enterprise income tax purposes under the EIT Law, and our income may be subject to PRC withholding tax under the EIT Law.**

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over, and overall management of, the business, production, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like ourselves, the criteria set forth in the circular may reflect the SAT's general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seal, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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

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**Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or ourselves to fines and other legal or administrative sanctions.**

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or SAFE Circular 7, replacing the previous rules issued by the SAFE in March 2007. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution. It may be difficult to impose service of process upon us, our Directors or our executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts 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. Also, SAFE Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly listed special purpose company must register with the SAFE or its local branches before they exercise the share options. We and our PRC employees who have been granted share options and restricted shares will be subject to these regulations upon the completion of this offering. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, as well as legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

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

**The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.**

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, (or the "M&A Rules"), adopted by six PRC regulatory agencies in 2006 and amended in 2009, and other regulations and rules concerning mergers and acquisitions, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in

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advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loan 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.**

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with the relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System (or “FICMIS”), and registration with other governmental authorities in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long-term loan to be provided by us to our consolidated variable interest entity must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registrations, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scope. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions over Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using the RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope,

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investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate other than for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the net proceeds from this offering, which may adversely affect our business, financial condition and results of operations.

**The heightened scrutiny over indirect transfers of PRC assets by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.**

In October 2017, the SAT issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source, or Bulletin 37, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the SAT on December 10, 2009, and partially replaced and supplemented rules under the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7. Pursuant to Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company controlling a PRC resident enterprise, by non-PRC resident enterprises may be recharacterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises and any gains from the transfer of such asset by a direct holder, who is a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly hold PRC taxable assets have real commercial nature, which is evidenced by their actual function and risk exposure; the duration of shareholders, existence of the business model and organizational structure; information about the payment of due income tax outside the PRC on the indirect transfer of PRC taxable property; the substitutability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In the case of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and may consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 20% would apply, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding agent shall declare and pay the withheld tax to the competent tax authority in the place where such withholding agent is located within seven days from the date of occurrence of the withholding obligation, while in the event that the withholding agent fails to withhold the tax due or withhold the tax due in full, the transferor is required to declare and pay such tax to the competent tax authority within the statutory time limit according to Bulletin 7. Late payment of applicable tax will subject the transferor to default interest. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a

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public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of Bulletin 37 or previous rules under Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, or the sale of the shares in our offshore subsidiaries or investments. Our Company may be subject to filing obligations or taxes if our Company is the transferor in such transactions, and may be subject to withholding obligations if our Company is the transferee in such transactions, under Bulletin 37 and Bulletin 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist with the filing under Bulletin 37 and Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 37 and Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

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

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, promulgated by the SAFE in July 2014, requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation (such as an increase or decrease in capital), transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including: (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into the PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into the PRC and deemed to have been evasive

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or illegal; and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We have requested PRC residents holding, to our knowledge, a direct or indirect interest in our Company to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations differently. In addition, we may not be aware of the identities of all of our beneficial owners who are PRC residents, and as we do not have control over all of our beneficial owners, the result is that there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and the subsequent implementation rules in a timely manner, or at all. Failure by any such Shareholder or Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us, or affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, Zhou Ye, Liu Gang and Mu Haijie who are PRC residents, as defined under SAFE Circular 37 or SAFE Circular 75, have completed their registration under SAFE Circular 75 on September 11, 2006, which is in compliance with SAFE Circular 75 and SAFE Circular 37.

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

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

We are an exempted company incorporated in the Cayman Islands, while substantially all of our assets are located in, and substantially all of our current operations are conducted in, China. In addition, a majority of our current directors and officers are not Hong Kong residents and the majority of the assets of these people are not located in Hong Kong. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, because there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and directors in a PRC court based on the liability provisions of non-PRC



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securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

### **RISKS RELATING TO THE GLOBAL OFFERING**

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

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations among our Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

**Because the initial public offering price of our Shares is substantially higher than the consolidated net tangible book value per share, purchasers of our Shares in the Global Offering may experience immediate dilution upon such purchases.**

As the Offer Price of our Shares is higher than the consolidated net tangible assets per share immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible assets. Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our Shares may experience further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we issue additional shares in the future to raise additional capital.

**We have granted share options in the past and may continue to do so in the future, which may have an adverse effect to our future profit. Exercise of the share options will increase the number of our Shares in circulation, which may result in the dilution to the shareholdings of existing shareholders and may adversely affect the market price of our Shares.**

We have adopted the Pre-IPO Share Option Scheme as incentives and rewards to our Directors, senior management, connected persons and other employees for their contribution to us, and to align the corporate objectives and interests between us and the grantees. As of the Latest Practicable Date, Options to subscribe for an aggregate of 301,923,937 Shares, representing approximately 24.13% of our issued share capital upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme) have been granted under the Pre-IPO Share Option Scheme. We incurred share-based compensation expenses of RMB1.9 million, RMB1.2 million and RMB33.7 million for 2015, 2016 and 2017, respectively. We will incur share-based compensation expenses in the future as a result of the Pre-IPO Share Option Scheme, primarily in 2018, which may have an adverse effect on our results of operations. We may grant additional share-based awards and adopt additional equity incentive plans in the future, and our results of operations may be adversely affected if we grant options under such plans.

In addition, the exercise of Options we have granted, or any other share-based awards that we may issue, will result in the dilution of the percentage ownership of our Shareholders, as well as our

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## RISK FACTORS

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earnings per Share and our net asset value per Share. Any actual or perceived sales of the additional Shares acquired upon the exercise of the Options we have granted, or any other incentive plans that may be adopted by us in the future, may adversely affect the market price of our Shares.

**Some facts, forecasts and statistics contained in this prospectus with respect to the PRC and its economies and payments industry are derived from various official or third-party sources and may not be accurate, reliable, complete or up to date, and statistics in the prospectus provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the “Industry Overview” section of this prospectus.**

We have derived certain facts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the PRC securities industry, from information provided by the PRC and other government agencies, industry associations, independent research institutes and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Underwriters or any of our or their respective affiliates or advisors, and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled inside or outside the PRC. The facts and other statistics include the facts and statistics included in the sections entitled “Risk Factors,” “Industry Overview” and “Business.” Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable with statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such information or statistics.

**You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.

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

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

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into and are expected to continue with certain transactions after the Listing which will constitute our non-exempt continuing connected transactions under Chapter 14A of Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules.

See “Connected Transactions” for further details.

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong, which normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that (i) our core business operations are principally located, managed and conducted in the PRC; (ii) the Company’s head office is situated in Shanghai, the PRC, our executive Directors and senior management team principally reside in the PRC; and (iii) the management and operation of our Company have mainly been under supervision of the executive Directors and senior management of our Company, who are principally responsible for the overall management, corporate strategy, planning, business development and control of our Company’s business, and the executive Directors and senior management of our Company are PRC residents and it is important for them to remain in close proximity to the Company’s operation located in the PRC, we consider that it would be more practical for our executive Director to remain ordinarily resident in the PRC where our Company has substantial operations. For the above reasons, we do not have, and do not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We will ensure that there are adequate and efficient arrangements to achieve regular and effective communication between us and the Stock Exchange as well as compliance with the Listing Rules by way of the following arrangements:

1. **Authorized representatives:** we have appointed Mr. JIN Yuan (“**Mr. JIN**”), the executive Director, Chief Financial Officer and Joint Company Secretary, and Ms. SO Shuk Yi Betty, the Joint Company Secretary, (“**Ms. SO**”), as the authorized representatives (the “**Authorized Representatives**”) for the purpose of Rules 3.05 of the Listing Rules. The Authorized Representatives will act as our principal channel of communication with the Stock Exchange and would be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Stock Exchange. Ms. SO ordinarily resides in Hong Kong whereas Mr. JIN ordinarily resides in the PRC, and Mr. JIN possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, the Authorized

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

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Representatives will be able to meet with the relevant members of the Stock Exchange to discuss any matters in relation to our Company within a reasonable period of time. See “Directors and Senior Management” for further information about our Authorized Representatives.

2. **Directors:** to facilitate communication with the Stock Exchange, we have provided the Authorized Representatives and the Stock Exchange with the contact details (such as mobile phone numbers, office phone numbers, e-mail addresses and fax numbers, to the extent available) of each of our Directors. In the event that any Director expects to travel or otherwise be out of office, he or she will provide the phone number of the place of his/her accommodation to the Authorized Representatives. To the best of our knowledge and information, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period after requested by the Stock Exchange.
3. **Compliance Adviser:** we have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) in compliance with Rules 3A.19 of the Listing Rules. The Compliance Adviser will, among other things and in addition to the Authorized Representatives, provide us with professional advice on continuing obligations under the Listing Rules and act as additional channel of communication of the Company with the Stock Exchange during the period from the Listing Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year immediately after the Listing. The Compliance Adviser will be available to answer enquiries from the Stock Exchange and will act as an additional channel of communication with the Stock Exchange when the Authorized Representatives are not available.

### WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Rule 8.17 of the Listing Rules provides that our Company must appoint a company secretary who satisfies the requirements under Rule 3.28 of the Listing Rules.

According to Rule 3.28 of the Listing Rules, the Company must appoint 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 company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

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

In addition, pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles they played;

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**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION  
FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND  
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- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. JIN as the one of the Joint Company Secretaries of the Company. See “Directors and Senior Management” for further biographical details of Mr. JIN.

Mr. JIN has substantial experience in handling financial corporate, compliance and administrative matters relating to the Company but personally does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, our Company has appointed Ms. SO, an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as Joint Company Secretary and to provide assistance to Mr. JIN for an initial period of three years from the Listing Date to enable Mr. JIN to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules. See “Directors and Senior Management” for further biographical details of Ms. SO which satisfy the requirements under Note 1(a) to Rule 3.28 of the Listing Rules.

The following arrangements have been, or will be, put in place to assist Mr. JIN in acquiring the qualifications and experience as the company secretary of our Company required under Rule 3.28 of the Listing Rules:

- (a) Mr. JIN will endeavor to attend relevant training courses, including briefings on the latest changes to the relevant applicable Hong Kong laws and regulations and the Listing Rules which will be organized by our Company’s Hong Kong legal advisors on an invitation basis and seminars organized by the Stock Exchange for listed issuers from time to time.
- (b) Ms. SO will assist Mr. JIN to enable him to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as the company secretary of our Company.
- (c) Ms. SO will communicate regularly with Mr. JIN on matters relating to corporate governance, the Listing Rules and any other laws and regulations which are relevant to our Company and its affairs. Ms. SO will work closely with, and provide assistance for, Mr. JIN in the discharge of his duties as a company secretary, including organizing our Company’s Board meetings and Shareholders’ general meetings.
- (d) Prior to expiry of Mr. JIN’s initial term of appointment as the Joint Company Secretary of our Company, we will evaluate his experience in order to determine if he has acquired the qualifications required under Rules 3.28 of the Listing Rules, and whether on-going assistance should be arranged so that Mr. JIN’s appointment as the Joint Company Secretary of our Company continues to satisfy the requirements under Rules 3.28 and 8.17 of the Listing Rules.

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

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Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 3.28 and 8.17 of the Listing Rules. Before the expiry of the initial three-year period, the qualification of Mr. JIN will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

### WAIVER AND EXEMPTION IN RELATION TO THE COMPANY'S SHARE INCENTIVE SCHEME

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 listing as well as the impact on the earnings per Share arising from the exercise of such outstanding options be disclosed in this prospectus.

Under paragraph 27 of Appendix 1A to the Listing Rules, we are required to disclose in this prospectus, 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.

Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, we are required to disclose in this prospectus details of the number, description and amount of Shares which a 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.

As of the Latest Practicable Date, our Company has granted Options under the Pre-IPO Share Option Scheme to 232 persons (the “**Grantees**”) to subscribe for an aggregate of 301,923,937 Shares under the terms and conditions of the Pre-IPO Share Option Scheme<sup>(1)</sup>. These include three Directors, two members of senior management of the Company, one director of our subsidiary who constitutes the connected person of our Group, one Grantee who is entitled to Options to subscribe for 8,000,000 Shares or more (the “**Significant Grantee**”) and 225 other Grantees (the “**Other Grantees**”) under the Pre-IPO Share Option Scheme. See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme.”

Our Company has applied (i) to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules, and (ii) to the SFC for an exemption from compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the

<sup>(1)</sup> The Pre-IPO Share Option Scheme was established for the purpose of replacing the pre-IPO share option schemes of PnR Holdings as approved by the board of directors of PnR Holdings on September 16, 2011, December 12, 2017 and January 20, 2018, respectively, and taking effect from September 16, 2011, December 18, 2017 and January 20, 2018, respectively, due to the Group's Reorganization. See “History and Reorganization—Our Reorganization.” The terms of the Pre-IPO Share Option Scheme are exactly the same as those in PnR Holdings' pre-IPO share option schemes. For illustration purpose and for the purpose of the implementation of the Pre-IPO Share Option Scheme, the terms and conditions of the Options to be granted to each Grantee under the Pre-IPO Share Option Scheme will mirror those granted under PnR Holdings' pre-IPO share option schemes. As of the Latest Practicable Date, the Options granted represent approximately 24.13% of the issued share capital of our Company upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme), or approximately 19.44% of the enlarged issued share capital of our Company upon full exercise of all the outstanding Options granted under the Pre-IPO Share Option Scheme on the completion of the Global Offering (assuming the Over-allotment Option is not exercised). See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme.”

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

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disclosure of certain details relating to the Pre-IPO Share Option Scheme and the Grantees on the ground that full compliance with such disclosure requirements would be unduly burdensome for our Company and the exemption would not prejudice the interest of the investing public for the following reasons:

- (a) given that 232 Grantees are involved, our Directors consider that it would be unduly burdensome to disclose full details of all the Options granted by us in the prospectus, which would involve a substantial number of pages of content to be inserted into the prospectus, significantly increasing the cost and timing for information compilation, prospectus preparation and printing;
- (b) the disclosure of key information of the Pre-IPO Share Option Scheme and the Options granted under the Pre-IPO Share Option Scheme to our Directors, members of the senior management of the Company, the connected persons of our Group, the Significant Grantee and Other Grantees in Appendix IV to the prospectus provides potential investors with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the Options in their investment decision making process; and
- (c) the lack of full compliance of the disclosure requirements set out above will not prevent potential investors from making an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group and will not prejudice the interest of any potential investors.

The Directors believe that a waiver and an exemption from the applicable disclosure requirements under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance will not hinder potential investors from making an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group and the interest of public investors will not be prejudiced, and that the grant and exercise in full of the Options will not cause any material adverse change in our Group's financial position.

The Stock Exchange has granted the waiver to us subject to the conditions that:

- (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) disclosure in this prospectus of a summary of the Pre-IPO Share Option Scheme;
- (c) disclosure in this prospectus of the aggregate number of Shares subject to the outstanding Options and the percentage of our Company's issued share capital of which such number represents;
- (d) disclosure in this prospectus of the dilution effect upon full exercise of the Options;
- (e) disclosure in this prospectus of the impact on earnings per Share upon full exercise of the Options;
- (f) on an individual basis, full details of all the Options granted by our Company under the Pre-IPO Share Option Scheme to our Directors, members of the senior management of the Company, the connected persons of our Group and the Significant Grantee, 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 prospectus;

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**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION  
FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND  
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- (g) in respect of the Options granted by our Company under the Pre-IPO Share Option Scheme to the Grantees other than those referred to in sub-paragraph (f) above, the following details be fully disclosed in this prospectus: (i) the aggregate number of the Other Grantees; (ii) the aggregate number of Shares underlying the Options of the Other Grantees; (iii) the consideration paid for the Options or an appropriate negative statement; (iv) the exercise periods of the Option; and (v) the exercise prices of the Options;
- (h) a full list of all the Grantees (including the Other Grantees) who have been granted Options, containing all details as 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 made available for public inspection in accordance with “Appendix V—Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in this prospectus; and
- (i) the particulars of the waiver and the exemption be set out in this prospectus.

The SFC has granted a certificate of exemption under section 342A 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 pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance subject to the conditions that:

- (a) on an individual basis, full details of all the Options granted by our Company under the Pre-IPO Share Option Scheme to our Directors, members of senior management of the Company, the connected persons of our Group and the Significant Grantee, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be disclosed in this prospectus;
- (b) in respect of the Options granted by our Company under the Pre-IPO Share Option Scheme to the Grantees other than those referred to in sub-paragraph (a) above, the following details be fully disclosed in this prospectus: (i) the aggregate number of the Other Grantees; (ii) the aggregate number of Shares underlying the Options of the Other Grantees; (iii) the consideration paid for the Options or an appropriate negative statement; (iv) the exercise periods of the Option; and (v) the exercise prices of the Options;
- (c) a full list of all the Grantees (including the Other Grantees) who have been granted Options, containing all details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with “Appendix V—Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in the prospectus;
- (d) the particulars of the exemption be set out in the prospectus; and
- (e) this prospectus be issued on or before June 1, 2018.

Further details of the Pre-IPO Share Option Scheme are set out in “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme.”



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

Neither the delivery of this prospectus nor any subscription made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

See "Underwriting" for further information about the Underwriters and the underwriting arrangements.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Price is expected to be determined between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date. The Price

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Determination Date is expected to be on or around June 7, 2018 and, in any event, not later than June 14, 2018 (unless otherwise determined between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company. If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on or before June 14, 2018, the Global Offering will not become unconditional and will lapse immediately.

### **PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES**

The application procedures for the Hong Kong Offer Shares are set forth in “How to Apply for Hong Kong Offer Shares” and on the relevant Application Forms.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set forth in “Structure of the Global Offering.”

### **SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus and on the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme).

Dealings in the Shares on the Stock Exchange are expected to commence on June 15, 2018. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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All necessary arrangements have been made to enable the securities to be admitted into CCASS.

### **OVER-ALLOTMENT AND STABILIZATION**

Details of the arrangements relating to the Over-allotment and stabilization are set out in “Structure of the Global Offering.”

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **SHARE REGISTER AND HONG KONG STAMP DUTY**

Our principal register of members will be maintained in the Cayman Islands by our principal registrar, Walkers Corporate Limited, in the Cayman Islands, and our Hong Kong register will be maintained by the Hong Kong Share Registrar in Hong Kong.

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES**

We have instructed our Hong Kong Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any Shares in the name of any particular holder unless and until the holder delivers a signed form to our Hong Kong Share Registrar in respect of those Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Cayman Companies Law and our Memorandum and Articles of Association;
- agrees with us and each of our Shareholders that the Shares are freely transferable by the holders thereof; and
- authorizes us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Memorandum and Articles of Association.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding and dealing in the Shares or exercising any rights attached to them. It is emphasized that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares or exercising any rights attached to them.

### EXCHANGE RATE CONVERSION

Solely for convenience purposes, this prospectus includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was made at the rate of RMB0.8139 to HK\$1.00, being the exchange rate prevailing on May 25, 2018 published by the PBOC for foreign exchange transactions and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8498 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on May 18, 2018.

### LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

### ROUNDING

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

*For further information on our Directors, see “Directors and Senior Management.”*

### DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<b>Executive Directors</b>		
ZHOU Ye (周擘) . . . . .	Room 301 No.16 Qiaohengyuan, Great Shanghai International Garden Lane 1555, Caobao Road Shanghai PRC	Chinese
MU Haijie (穆海潔) . . . . .	No.625, Changle Road Shanghai PRC	Chinese
JIN Yuan (金源) . . . . .	Room 602 No. 21, Lane 2899, Hongmei Road Shanghai PRC	Chinese
<b>Non-Executive Directors</b>		
CHYE Chia Chow (蔡佳釗) . . . . .	28 Parbury Ave #08-04 Parbury Hill Condominium Singapore 467298	Singaporean
ZHOU Joe . . . . .	77 Hudson Street APT 4006 Jersey City NJ 07302.8536 United States of America	American
CHEN Zhongjue (陳中蠟) . . . . .	Flat B, 19/F, Tower 1 Tregunter 14 Tregunter Path Hong Kong	Chinese
<b>Independent non-executive Directors</b>		
LIU Jun (劉俊) . . . . .	Room 203 Unit 4, Building 6, 10 Bai Hui Road Chengdu Sichuan PRC	Chinese
WANG Hengzhong (王恒忠) . . . . .	Room 608, No. 1 Building No. 111 Zhongcao Road Xuhui District Shanghai PRC	Chinese
ZHANG Qi (張琪) . . . . .	Room 3002 No. 18 Lane 9, Zhaojiabang Road Xuhui District Shanghai PRC	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

##### **CLSA Capital Markets Limited**

18/F, One Pacific Place  
88 Queensway  
Hong Kong

##### **J.P. Morgan Securities (Far East) Limited**

28/F, Chater House  
8 Connaught Road Central  
Hong Kong

#### Joint Global Coordinators

##### **J.P. Morgan Securities (Asia Pacific) Limited**

28/F, Chater House  
8 Connaught Road Central  
Hong Kong

##### **CLSA Limited**

18/F, One Pacific Place  
88 Queensway  
Hong Kong

#### Joint Bookrunners and Joint Lead Managers

##### **J.P. Morgan Securities (Asia Pacific) Limited**

(in relation to the Hong Kong Public Offering only)  
28/F, Chater House  
8 Connaught Road Central  
Hong Kong

##### **J.P. Morgan Securities plc**

(in relation to the International Offering only)  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

##### **CLSA Limited**

18/F, One Pacific Place  
88 Queensway  
Hong Kong

##### **CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central, Hong Kong

##### **Haitong International Securities Company Limited**

22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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	<p><b>Credit Suisse (Hong Kong) Limited</b> Level 88, International Commerce Centre 1 Austin Road West Kowloon Hong Kong</p>
	<p><b>CMB International Capital Limited</b> 45/F, Champion Tower, 3 Garden Road, Central, Hong Kong</p>
<b>Reporting Accountants and Independent Auditor</b>	<p><b>Ernst &amp; Young</b> <i>Certified Public Accountants</i> 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong</p>
<b>Legal Advisors to the Company</b>	<p><i>As to Hong Kong and U.S. laws</i> <b>Clifford Chance</b> 27/F, Jardine House One Connaught Place Central Hong Kong</p> <p><i>As to PRC law</i> <b>Grandall Law Firm (Shanghai)</b> 23-25/F, Garden Square 968 West Beijing Road Shanghai PRC</p> <p><i>As to Cayman Islands law</i> <b>Walkers</b> 15/F, Alexandra House 18 Charter Road Central Hong Kong</p>
<b>Legal Advisors to the Joint Sponsors and the Underwriters</b>	<p><i>As to Hong Kong and U.S. laws</i> <b>Freshfields Bruckhaus Deringer</b> 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong</p> <p><i>As to PRC law</i> <b>Han Kun Law Offices</b> Suite 906, Office Tower C1 Oriental Plaza No. 1 East Chang An Avenue Beijing PRC</p>

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Industry Consultant**

**Frost & Sullivan (Beijing) Inc., Shanghai  
Branch Co.**  
Suite 1014-1018, Tower B  
500 Yunjin Road  
Shanghai, 200232  
PRC

**Receiving Bank**

**Bank of China (Hong Kong) Limited**  
1 Garden Road  
Hong Kong



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## CORPORATE INFORMATION

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<b>Registered Office</b>	The offices of Walkers Corporate Limited Cayman Corporate Centre 27 Hospital Road George Town Grand Cayman KY1 - 9008 Cayman Islands
<b>Head Office and Principal Place of Business in PRC</b>	Block C5 Putian Industrial Park Phase II No.700 Yishan Road Xuhui District Shanghai PRC
<b>Principal Place of Business in Hong Kong</b>	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Company's Website</b>	<a href="http://www.huifu.com">www.huifu.com</a> <i>(The information on the website does not form part of this prospectus)</i>
<b>Joint Company Secretaries</b>	JIN Yuan Room 602 No. 21, Lane 2899, Hongmei Road Shanghai PRC  SO Shuk Yi Betty <i>(ACIS, ACS)</i> 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Authorized Representatives</b>	JIN Yuan Room 602 No. 21, Lane 2899, Hongmei Road Shanghai PRC  SO Shuk Yi Betty 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

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## CORPORATE INFORMATION

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<b>Audit Committee</b>	WANG Hengzhong (Chairman) LIU Jun ZHANG Qi
<b>Nomination Committee</b>	ZHOU Ye (Chairman) ZHANG Qi LIU Jun
<b>Remuneration Committee</b>	ZHANG Qi (Chairman) WANG Hengzhong ZHOU Ye
<b>Compliance Adviser</b>	Guotai Junan Capital Limited 27/F Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Cayman Islands Principal Share Registrar and Transfer Agent</b>	Walkers Corporate Limited Cayman Corporate Center 27 Hospital Road George Town Grand Cayman KY1-9008 Cayman Islands
<b>Principal Bankers</b>	China Minsheng Banking Corp., Ltd., Shanghai Xuhui Branch 1/F, Xujiahui International Tower No.1033 Zhaojiabang Road Shanghai PRC  China Construction Bank Corporation, Business Department of Shanghai Branch Room 2702 No.200 Huaihai Middle Road Shanghai PRC

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## INDUSTRY OVERVIEW

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*Certain information and statistics set out in this section and elsewhere in this prospectus are derived from various government and other publicly available sources, and from the market research report prepared by Frost & Sullivan, an independent industry consultant that was commissioned by us (the “Frost & Sullivan Report”). The information extracted from the Frost & Sullivan Report should not be considered as a basis for investments in the Offer Shares or as opinion of Frost & Sullivan with respect to the value of any securities or the advisability of investing in our Company. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective directors, officers or representatives nor is any representation given as to its accuracy or completeness. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industries, see “Risk Factors—Risks Relating to Our Business and Industry.”*

### SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm that is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the third-party payment service market in China. During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on the industry trends of the target research market. Primary research involved interviewing industry insiders such as leading market players, suppliers, customers and recognized third-party industry associations. Secondary research involved reviewing company reports, independent research reports and data based on its own research database.

The Frost & Sullivan Report was compiled based on the following assumptions: (a) the social, economic and political environment is likely to remain stable in the forecast period; (b) the third-party payments market is expected to remain in healthy growth in China; (c) related industry key drivers are likely to propel market growth in the forecast period.

Frost & Sullivan is an independent global consulting firm, which was founded in New York, the United States in 1961. It conducts industry research and provides market and enterprise strategies, consultancy services for various industries. We have agreed to pay a fee of RMB580,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section and elsewhere in this prospectus to provide our potential investors with a comprehensive presentation of the industries in which we operate.

### OVERVIEW OF THE THIRD-PARTY PAYMENTS MARKET IN CHINA

#### Evolution of the PRC Third-Party Payments Market

Third-party payment services are provided by a non-bank payment service provider, which acts as an intermediary for payment processing and settlement between merchants and customers. Third-

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party payment services can be mainly divided into four types, including POS, Internet, mobile and cross-border payments services. According to Frost & Sullivan, the evolution of China's third-party payments market consists of the following four stages:

- *Start-up stage from 1999 to 2005:* Online shopping has boosted the prosperity of e-commerce, which resulted in an increasing demand for Internet payments. However, this demand cannot be satisfied by commercial banks, which gave birth to third-party payment service providers and the spring-up of the third-party payments market.
- *Further development stage from 2006 to 2010:* The advent of Internet payment and its rapid growth have gradually changed the payment habits of customers in China from cash payment to non-cash payment. Third-party payment service providers began to offer customized payment solutions to meet the needs of industry clients whose business was positively influenced by the Internet. In 2007, third-party payment service providers commenced serving traditional industries such as airline ticketing, mutual funds and public utilities.
- *Rapid development stage from 2011 to 2017:* In 2011, the Payment License was officially issued by the PBOC to authorize third-party payment service providers to, among others, provide POS services and strengthen the oversight of the third-party payments market. With the rapid increase in the number of third-party payment service providers, third-party payment service providers began to offer payment services together with value-added services to merchants. Meanwhile, the spread of smartphones and the advancement of payments technologies contributed significantly to the increasing popularity of mobile POS and mobile payment services during this period, which had a positive impact on the market and penetrated into different scenarios.
- *Industry reshaping stage starting from 2017:* With the continuous promulgation of regulations to standardize the third-party payments industry, entry barriers for new entrants are expected to increase and the competition to intensify. Leading companies in the industry will expand their businesses by taking advantage of their strengths, and those companies without core competitiveness will be eliminated. Advanced technologies, especially artificial intelligence and big data analytics, have become increasingly important in the marketplace and will be widely applied in customer acquisition, customer management and risk management.

### Key Participants in the PRC Third-Party Payments Market

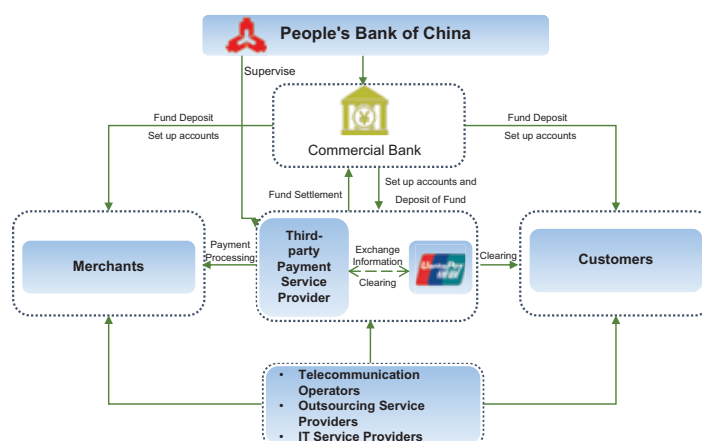
In the third-party payments industry in China, key participants mainly consist of the PBOC, UnionPay, commercial banks, the third-party payment service providers, merchants and customers:

- *The PBOC* is the central bank of the PRC that has the power to formulate and carry out monetary policies and regulate financial institutions. It is the official supervision department of the third-party payments industry.
- *UnionPay* is the sole card association in China, which also acts as the clearing house in the third-party payments industry. It provides the infrastructure that connects and transmits transactions between payment service providers and issuing banks to facilitate the transmission of payments authorization, clearing and settlement.
- *Commercial banks* are the issuing banks and provide payment gateways. They also process payments for Internet payment and other payment methods.

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- *Third-party payment service providers* act as the intermediary between merchants and customers for payment processing and settlement.
- *Merchants* cooperate with third-party payment service providers and provide service in exchange for transaction funds from receiving side, including micro and small merchants as well as industry verticals.

The diagram below illustrates the key participants in the third-party payments market in China:



There are more participants in the value chain of the U.S. third-party payments market and the roles of each are more specific, while the participants in the third-party payments market in China are more concentrated. In China, a third-party payment service provider acts as both a merchant acquirer, which develops merchants directly and acts as primary point of contact for merchants, and a merchant processor, which provides authorization, data transmission, data security and settlement functions.

### Third-Party Payments Market by Services Segment

Third-party payment services mainly include POS, Internet payment, mobile POS, mobile payment and cross-border payment services.

- *POS services*: POS services include providing hardware (primarily POS terminals) and software to enable merchants to accept payments from bank cards through the UnionPay clearing network.
- *Internet payments*: Internet payments refer to the services provided by third-party payment service providers in processing online transactions via equipment such as a desktop or laptop.
- *Mobile POS services*: Mobile POS services refer to the services that enable merchants to accept payments via mobile POS terminals, usually in the form of Bluetooth-connected card readers. The mobile POS terminals are connected to the merchant client's smartphones which encrypt, transmit and process the payment information via a mobile app.
- *Mobile payments*: Mobile payments refer to payment made via mobile devices, excluding mobile POS accessories.
- *Cross-border payments*: Cross-border payments refer to a transaction that a company or an individual in one country or region transfers money to a company or an individual in another country or region.

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### Growth of the PRC Third-Party Payments Market

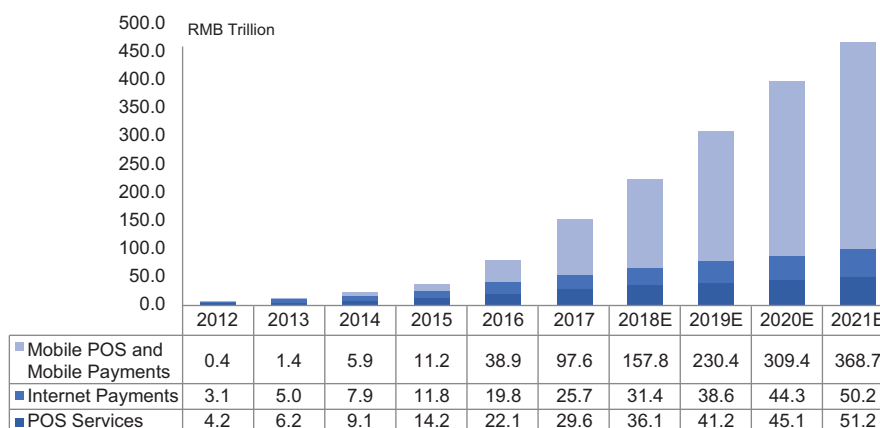
The third-party payments market has grown rapidly in the past few years. In 2017, third-party payment volume reached approximately RMB152.9 trillion. The growth of the third-party payments market in China is primarily driven by the following favorable trends:

- *Changing payment habits of consumers.* Rapid development of ecommerce in China has prompted changes in consumer habits towards mobile and digital payments, driving the growth of the third-party payments industry in China. According to Frost & Sullivan, in 2017, 97.5% of China's Internet users went online via mobile devices and 65.5% of them used mobile POS or mobile payment services.
- *Increasing demand from micro and small merchants for both payment services and value-added services.* Micro and small merchants in China have significant needs for payment and value-added services but are generally underserved. As the number of micro and small merchants increased from 37.8 million in 2012 to 81.0 million in 2017, representing a CAGR of 16.5% and is expected to continue growing, we believe merchants' demand for payment and value-added services will increase.
- *Advancement in payment technology.* New and emerging technologies, such as artificial intelligence, big data analytics, cloud-based computing, and biometric authentication, are driving the innovation and offering of new payment services and improvement of customer experience.
- *More proactive government regulations.* The PBOC and other regulatory authorities are expected to introduce more proactive and specific industry regulations and enhance their regulatory framework to promote healthy growth of the third-party payments industry.

Due to the foregoing trends, the development of the third-party payments market in China is expected to keep a strong upward trend during the forecast period. Among the various payment segments, mobile POS and mobile payments have witnessed an explosive growth in the past years. In 2012, mobile POS and mobile payments contributed only 4.8% of the total payment volume. However, it has become the largest segment in 2017 reaching RMB97.6 trillion, accounting for 63.9% of total payment volume. Due to the evolving payment habits of consumers and increasing penetration of mobile devices, the payment volume of mobile POS and mobile payments is expected to grow at a CAGR of 39.4% from 2017 and reach RMB368.8 trillion in 2021.

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With the expansion of the mobile POS and mobile payment services, the volume of Internet payments having increased from RMB3.1 trillion in 2012 to RMB25.7 trillion in 2017, accounting for 16.8% of total payment volume in 2017, the payment volume of Internet payments is forecast to reach RMB50.2 trillion in 2021. Meanwhile, POS payment volume is projected to amount to RMB51.2 trillion in 2021, growing at a CAGR of 14.7% since 2017. The diagram below illustrates the historical and projected payment volume of the third-party payments market in China:

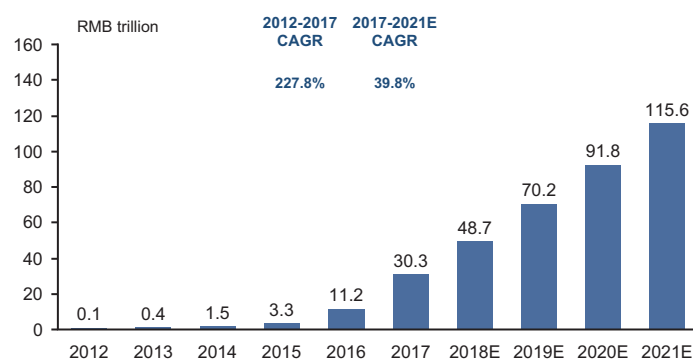


Source: Frost & Sullivan Report

Note: The market research does not include payments through prepaid cards and telephone. The transaction of cross-border payments can be conducted through POS, mobile and Internet.

### Growth of the Third-Party Market for Mobile POS and Mobile Payment Services in China

Driven by the advancement of mobile technology and a preference for fast and convenient payment methods, third-party market for mobile POS and mobile payment services is expected to grow at a CAGR of 39.8% from 2017 to 2021, reaching RMB115.6 trillion in 2021. A portion of the payment volume in China is consumer-to-consumer transfers, for which few services charge explicit fees. The payments conducted through personal applications, such as money transfer between individuals and credit card repayments, do not produce real economic value. This type of payment volume of third-party mobile POS and mobile payment services reached approximately RMB30.3 trillion in 2017. The diagram below illustrates the historical and projected payment volume of the third-party market for mobile POS and mobile payment services in China:



Source: Frost & Sullivan Report

Note: This market does not include personal applications which do not produce real economic value, such as money transfers between individuals, and credit card repayments.

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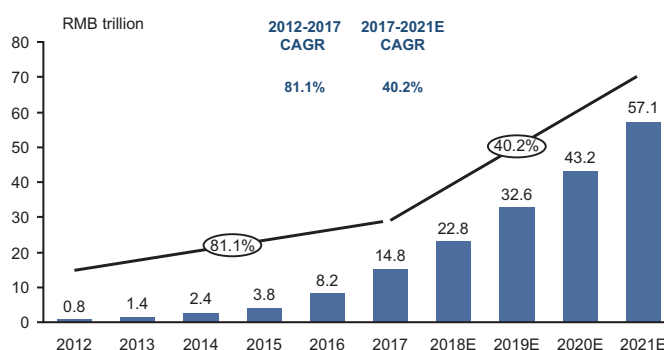
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When consumers pay offline bills in restaurants, shopping malls or beauty salons, the bills are paid either by using credit/debit cards or via a digital wallet. Merchants initiate and process the payment by using mobile POS accessories and other mobile devices. A digital wallet allows users to make purchases with mobile devices that securely store their bank account details, virtual electronic account or other store of value. Driven by the advancement in mobile POS and mobile payments and the change in payment habits, digital wallet has become a popular method for consumers to pay bills and has penetrated into a wide range of offline life scenarios. Payment through digital wallet can be achieved by scanning QR codes, using Bluetooth or near field communication technologies. Along with the advancement in payment technology and the increasing number of Internet mobile users, payment through digital wallet is expected to witness robust growth, connecting the offline and online network.

### Growth of Independent Third-Party Payments Market in China

There are two types of third-party payment service providers in China: independent and non-independent third-party payment service providers. Independent third-party payment service providers are those that are not owned or controlled by financial institutions or corporate groups, such as large ecommerce platforms. Compared with non-independent third-party payment service providers, independent third-party payment service providers are usually trusted by merchants due to their neutrality, and their independence makes it easier to integrate a broader range of payment gateways to provide multi-channel payment solutions. The payment volume of the independent third-party payments market in China reached approximately RMB14.8 trillion in 2017. Propelled by the rapid growth of independent third-party payment service providers in China and their increasingly important roles in offering payment solutions, the independent third-party payments market is expected to further expand. The payment volume for this market is forecast to increase to RMB57.1 trillion in 2021, representing a CAGR of 40.2% from 2017 to 2021. The diagram below illustrates the historical and projected payment volume of the independent third-party payments market in China:



Source: Frost & Sullivan Analysis

### Challenges in the Third-party Payments Market in China

Intense competition, fraud, security risks and increasing compliance costs are some of the key challenges faced by third-party payment service providers in China, which will affect their business prospects and strategic development.

- *Competition from commercial banks:* Attracted by the potential opportunity of the payments market, commercial banks begin to offer more payment and related value-added services to attract clients with their comprehensive financial services.



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- *Fraud and security risks:* The security of transaction has become increasingly important for third-party payment service providers in China. The security risks arise mainly from the leak of private information, transaction fraud and cyberattacks. In recent years, transaction fraud has become a major challenge for third-party payment service providers and only those with strong risk management capabilities and high efficiency in risk identification could efficiently mitigate the fraud risks on a real-time basis.
- *Increasing compliance costs:* The government authorities have strengthened the regulations and policies on third-party payments market. Therefore, the regulatory burden on business has been ratcheted up, creating additional compliance cost in different aspects such as operation, labor and rent for all third-party payment service providers to ensure the compliance of their business.

### Entry Barriers to Third-party Payments Market in China

Coupled with the challenges of the third-party payments market, there are also entry barriers for new third-party payments companies.

- *Payment License:* The PBOC, China's central bank, issued licensing regulations in June 2010 for third-party payment service providers to standardize the business operations of various participants and prevent severe violations of legitimate business operations. The PBOC has been strictly controlling the issuing of payment licenses, which poses higher entry barriers for new entrants.
- *Experienced Professionals:* The successful operation of a third-party service provider requires extensive industry knowledge and experts with rich experience accumulated over years. Such experience includes abundant knowledge on finance, regulations and rules on payment, and payment technology. Experienced experts have played a key role in the product development and business operation of third-party payment service providers, which may inevitably pose barriers for new entrants.
- *Stable Relationship with Clients, Commercial Banks and Other Business Partners:* Clients of payment solutions tend to use the same service provider once a business relationship has been established, hence creating barriers for new entrants. Sticking to the same service provider can reduce operational risk and costs. Furthermore, it usually takes a long time for third-party payment service providers to establish and maintain a stable relationship with different commercial banks, channel partners, UnionPay and other business partners.

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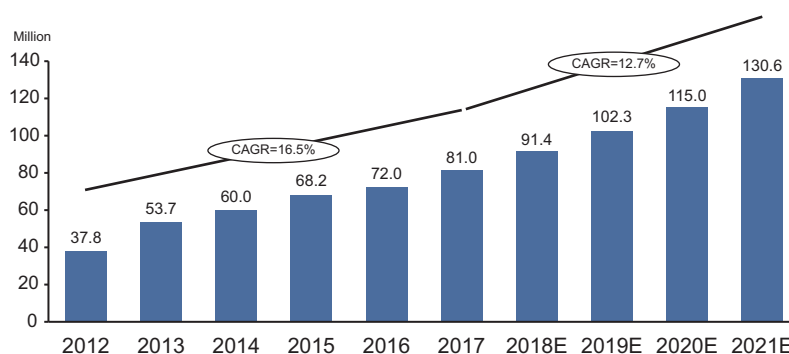
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### MERCHANT PAYMENT SOLUTIONS IN CHINA

#### Micro and Small Merchants

Micro and small merchants in China have an increasing demand for convenient, flexible and affordable payment services. Micro and small merchants in China usually refer to the groups whose annual payment volume is generally less than RMB2.0 million. Benefiting from the government initiatives to boost the development of the micro and small economy, the number of micro and small merchants has grown rapidly, from 37.8 million in 2012 to 81.0 million in 2017, representing a CAGR of 16.5%. The diagram below illustrates the historical and projected number of micro and small merchants in China:



Source: Frost & Sullivan Analysis

The payment needs of micro and small merchants are usually dispersed. The costs of payment services provided by commercial banks and traditional financial institutions are usually high for micro and small merchants, who are sensitive to cost. Moreover, micro and small merchants usually demand flexible payment methods and a short settlement time. In addition, micro and small merchants need value-added services to help them access working capital and increase operational efficiency.

By identifying unmet needs and vast opportunities, third-party payment service providers have begun to offer customized payment solutions to micro and small merchants, helping them grow and expand business. Third-party payments companies offer micro and small merchants more options to accept payments, reduce transaction costs, and manage payments in a more streamlined manner. In addition, catering to the specific needs of micro and small merchants, third-party payment companies also provide value-added services to facilitate their access to working capital.

Benefiting from various payment solutions offered by third-party payment service providers, the independent third-party payments market for micro and small merchants has witnessed growth momentum in the past few years with the payment volume reaching RMB12.1 trillion in 2017, representing a CAGR of 82.4% from 2012. It is expected to increase to RMB19.3 trillion in 2021, representing a CAGR of 12.4%.

#### Market Outlook

**Increasing demand for customized payment services:** Standard third-party payment services may not adapt to the various transaction scenarios faced by micro and small merchants. In order to improve customer loyalty, third-party payment companies will provide customized services to micro and small merchants to cater to their specific needs, including basic payment services for the specific transaction scenario and value-added services that could help micro and small merchants reduce costs and improve operation efficiency.

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***Cutting-edge technology will change the payment methods:*** The payments between micro and small merchants and their customers are usually of small amount while at high frequency, and consumers demand greater convenience in payment process. Therefore, the main type of mobile payments will be payments without passwords. In addition to the current fingerprint payment authentication technology, new biometric technologies such as face recognition, acoustic wave recognition and iris recognition will be applied in mobile POS services provided to micro and small merchants.

### **Industry Verticals**

Various industry verticals are striving to reduce payment costs, increase payment efficiencies, create more flexible payment methods and provide convenience to their customers. They need payment systems with more transparency and with account management systems to complete the closed-loop payment of funds and settlement of third-party systems. Fintech enabling services, such as big data analytics, account management and risk management services are promoting the market competitiveness of third-party payment service providers.

### **Drivers for fintech enabling services**

***Increasing financial services provided by Internet companies:*** Internet companies are now providing more financial value-added services such as investment and financing services for merchants on their platform. In addition to Baidu, Alibaba and Tencent, Internet companies such as Toutiao, Meituan and Didi have also started to provide financial services recently. Ecommerce and O2O (online-to-offline) Internet companies have been involved in various transactions with their consumers. By integrating the upstream and downstream of financial services in the industrial chain, Internet companies could provide one-stop financial services for suppliers and consumers. Particularly, the payment tools are the basis for implementing the closed-loop O2O transactions. Big data is an important asset for Internet companies. Among all the data, financial data related to the transaction process is the most valuable. Data mining and the integration of financial data are significant to generating more profit for Internet companies.

***Internet-based traditional financial institutions:*** In recent years, most large financial institutions have shifted the operation of traditional financial services to the Internet. They have developed third-party mobile applications since online operation has the advantages of lower cost, greater convenience and higher speed, providing clients with more efficient financial services, such as online account opening and online sales of financial product. Internet-enabling services help financial institutions expand their marketing channels and reduce commission rates. In addition, the Internet has gathered a large amount of customer resources and financial transactions. Data information is the basis for the development of financial institutions. They need a large amount of customer information and data to form the capabilities of attracting capital and achieving targeted marketing. Therefore, financial institutions that continue to only offer financial services in the traditional manner may gradually lose their competitive advantage.

### ***Internet finance***

Internet finance refers to traditional financial institutions and Internet companies that use Internet technology and information communication technology to provide lending, investment and other financial services online. With robust economic growth and continuous technology innovations,

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the Internet finance market in China has experienced a significant growth over the past few years with the market size in terms of total transaction value increasing from RMB4.5 trillion in 2012 to RMB168.5 trillion in 2017, representing a CAGR of 106.4% during this period. Driven by the gradual improvement of credit infrastructure, as well as households' growing demand for financial services over the Internet, the total transaction value of Internet finance market in China is forecast to expand further and reach approximately RMB423.2 trillion by 2021, representing a CAGR of 25.9% during the period 2017 to 2021.

Internet finance platforms match capital and asset to solve the accommodation of funds. These platforms have a common feature—they can connect their own business model to other business models and they have the ability to obtain high-quality assets via different channels. Therefore, they need to access the target customers with financing needs.

Taking the advantage of big data analytics, third-party payment companies are able to assist Internet finance providers to capture client needs, assess risks and conduct know-your-customer procedures.

### ***Online travel agencies***

In recent years, online travel agencies have become the main channel for customers to book airline tickets. Third-party payment service providers explored the needs of the airline industry in China and have provided tailor-made payment solutions for online travel agencies. Third-party payments companies can effectively help online travel agencies to streamline their payment process which largely increases efficiency. Leading market players include companies such as Alipay and HuiFu, which mainly offer payment services. From 2012 to 2017, the payment volume of online airline ticket payments increased from RMB85.4 billion to RMB188.7 billion, representing a CAGR of 17.2% during this period. In 2021, the market size is forecast to reach RMB336.9 billion by payment volume, representing a CAGR of 15.6% from 2017 to 2021.

### ***Cross-border ecommerce***

Cross-border ecommerce refers to the ecommerce trade between two or more countries. Under the cross-border transaction environment, traditional payment methods have been burdened by foreign exchange policies and transaction quotas. Furthermore, the complex processes and high costs have severely restricted the overseas expansion of PRC ecommerce platforms. Therefore, there is increasing demand for convenient and efficient cross-border payment and settlement solutions.

Driven by the consumption upgrade of the middle class and the development of third-party payment service providers, the payment volume of third-party cross-border payments has increased from US\$0.3 billion in 2012 to US\$20.5 billion in 2017, representing a CAGR of 136.1%. In 2021, the payment volume is forecast to reach US\$53.3 billion, representing a CAGR of 26.9% during the period of 2017 to 2021.

In recent years, regulatory authorities such as the PBOC and the SAFE have successively introduced favorable policies to actively support cross-border payments, which further promote the implementation of cross-border payment pilot projects in different cities in China.

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### *Other industries*

Large companies in the traditional industries, such as education and training, logistics and healthcare, have a number of branches and offices in different geographic regions. The third-party payment service providers act as the intermediary to connect those companies and commercial banks to make monetary payments, money transfers and capital settlements between customers, financial institutions and merchants. Furthermore, those companies need account management services from third-party payment service providers to help manage daily account in a streamlined manner. The business and financial accounts of each branch used to be separated, making account management very complex. Managers need to view all the account activities in one management system including account receipts, pending services, ongoing transactions, and customer information. Therefore, the account management services offered by third-party payment companies help those large companies increase operational efficiency and reduce costs.

### Service fees before September 6, 2016

<u>Service fees</u>	<u>Total fees</u>	<u>Issuing banks</u>	<u>Intermediaries (UnionPay)</u>	<u>Acquirers</u>
Distribution proportion	100%	70%	10%	20%
<u>MCC categories</u>	<u>Total fees</u>	<u>Issuing banks</u>	<u>Intermediaries (UnionPay)</u>	<u>Acquirers</u>
Catering and entertainment	1.25%	0.90%	0.13%	0.22%
Catering and entertainment -wholesale	1.25%, a cap of RMB80 for each transaction	0.90%, RMB60	0.08%, RMB10	0.15%, RMB10
General industries	0.78%	0.55%	0.08%	0.15%
General industries-wholesale	0.78%, a cap of RMB26 for each transaction	0.26%, RMB20	0.04%, RMB2.5	0.08%, RMB3.5
Utilities	0.38%	0.26%	0.04%	0.08%
Public welfare	free of charge	free of charge	free of charge	free of charge

### Service fees after September 6, 2016

<u>MCC categories</u>	<u>Total fees</u>	<u>Issuing banks</u>	<u>Intermediaries (UnionPay)</u>	<u>Acquirers</u>
Standard category	market-adjusted price for both credit and debt cards	0.35% for debit cards, a cap of RMB13 for each transaction 0.45% for credit cards	0.0325%, a cap of RMB3.25 for each transaction (two bidirectional charge from issuers and acquirers)	market-adjusted price for both credit and debt cards
Preferential category	market-adjusted price for both credit and debt cards	0.273% for debit cards, a cap of RMB10.14 for each transaction 0.351% for credit cards	0.0254%, a cap of RMB2.54 for each transaction (two bidirectional charge from issuers and acquirers)	market-adjusted price for both credit and debt cards
Reduction and exemption category	free of charge	free of charge	free of charge	free of charge

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In the past few years, Internet and mobile payment service fee rates have been compressed due to fierce competition. However, as merchants started to attach more importance to factors other than service prices, such as the quality, safety, convenience and comprehensiveness of the payment services, the service fee rates remained relatively stable in 2016 and 2017. According to Frost & Sullivan, there is little room for further decreases in fee rates for Internet and mobile payment services in the long run. In addition, the increasing demand for value-added services on top of payment services will provide an important source of revenue for third-party payment service providers.

### Competitive Landscape of the Third-party Payments Market in China

The chart below illustrates the ranking of the top seven companies by payment volume in the third-party payments market in 2017:

#### Ranking of Third-party Payments Market<sup>(1)</sup> Players by Payment Volume, China, 2017

Ranking	Company	Market Share
1	Alipay (支付寶)	34.7%
2	Tenpay (財付通)	25.1%
3	ChinaUMS (銀聯商務)	19.4%
4	Company A	3.6%
5	Company B	2.9%
6	Company C	2.3%
7	<b>Huifu (匯付天下)</b>	<b>2.0%</b>

(1) This market does not include personal applications which do not produce economic value, such as money transfers between individuals, credit card bill payments. The total payment volume of the PRC third-party payments market in 2017 was RMB57.1 trillion. Total payment volume includes those of Internet payments, mobile POS, mobile payments and POS.

Source: Frost & Sullivan Analysis

With 243 licensed third-party payment service providers in China as of December 31, 2017, third-party payments market is highly competitive. In 2017, the top seven third-party payment service providers accounted for 90.0% of total market share. Huifu ranked seventh among all the third-party payment service providers, while Alipay and Tenpay account for 59.8% of total market share.

The business model and market positioning of Huifu are different from Alipay and Tenpay, the two largest third-party payment service providers in China. Their business models are designed to primarily serve individual consumers, while the business model of Huifu is designed to primarily serve micro and small-sized merchants and industry verticals. In addition, Huifu markets and distributes its merchant payment services primarily through ISO networks while we believe that Alipay and Tenpay rely principally on direct sales and Internet marketing. The payment solutions of Huifu, such as the SuPay mobile POS solution, enable customers to accept payments from UnionPay bank cards, online banking and various digital payment methods, such as Alipay, WeChat Pay, QuickPass and Apple Pay.

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### ***Ranking of Third-party Providers of Mobile POS and Mobile Payment Services in China***

The chart below illustrates the ranking of the top five third-party providers of mobile POS and mobile payment services by payment volume in the mobile POS and mobile payments market in 2017:

#### **Ranking of Third-party Providers of Mobile POS and Mobile Payment Services by Payment Volume<sup>(1)</sup>, China, 2017**

<b>Ranking</b>	<b>Company</b>	<b>Market Share</b>
1	Alipay (支付寶)	52.7%
2	Tenpay (財付通)	34.1%
3	Company A	2.8%
<b>4</b>	<b>Huifu (匯付天下)</b>	<b>2.5%</b>
5	Company D	1.6%

(1) This market does not include personal applications which do not produce economic value, such as money transfer between individuals and credit card bill payments. 2017's total payment volume of the PRC third-party mobile POS and mobile payments market was RMB30.3 trillion.

Source: Frost & Sullivan Analysis

Alipay remained the market leader in China's third-party mobile POS and mobile payments market with a 52.7% market share in terms of payment volume in 2017. It is followed by Tenpay with a 34.1% market share. Huifu has a 2.5% market share in the third-party mobile POS and mobile payments market in 2017.

### ***Ranking of Independent Third-party Payment Service Providers***

Among all the independent third-party payment service providers, Huifu ranked third with approximately 7.7% market share in terms of payment volume in 2017. The chart below illustrates the ranking of the top three companies by payment volume in the third-party payments market in 2017:

#### **Ranking of Independent Third-party Payments Services Providers by Payment Volume, China, 2017**

<b>Ranking</b>	<b>Company</b>	<b>Market Share</b>
1	Company B	18.6%
2	Company C	9.7%
<b>3</b>	<b>Huifu (匯付天下)</b>	<b>7.7%</b>

2017's total payment volumes of the PRC independent third-party payments market was RMB14.8 trillion

Source: Frost & Sullivan Analysis

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### ***Ranking of Independent Third-party Payment Service Providers for Micro and Small Merchants***

Micro and small merchants account for almost 60% of enterprises and merchants served by third-party payment service providers in China. Independent third-party payment service providers offer customized payment solutions for micro and small merchants. In terms of payment volume in 2017, Huifu ranked first among all the independent third-party payment service providers in the market segment for micro and small merchants, with a 5.5% market share. The chart below illustrates the ranking of independent third-party payment service providers for micro and small merchants by payment volume in 2017:

### **Ranking of Independent Third-party Payment Service Providers for Micro and Small Merchants by Payment Volume, China, 2017**

<b>Ranking</b>	<b>Company</b>	<b>Market Share</b>
<b>1</b>	<b>Huifu (匯付天下)</b>	<b>5.5%</b>
2	Company C	5.2%
3	Company D	3.7%

*2017's total payment volumes of the PRC independent third-party payment service providers for micro and small merchants market was RMB12.1 trillion*

*Source: Frost & Sullivan Analysis*

Independent third-party service providers of mobile POS and mobile payment services account for approximately 40% of all third-party service providers of mobile POS and mobile payment services in the market segment for micro and small merchants in China. Huifu has the largest market share in this market segment, accounting for almost 9.0% in terms of payment volume.

### **Ranking of Independent Third-party Service Providers of Mobile POS and Mobile Payments for Micro and Small Merchants by Payment Volume, 2017**

<b>Ranking</b>	<b>Company</b>	<b>Market Share</b>
<b>1</b>	<b>Huifu (匯付天下)</b>	<b>9.0%</b>
2	Company C	8.1%
3	Company D	5.2%

### ***Ranking of Online Lending Payments Market Players***

Payment solution market for online lending accounts for approximately 6% of the payment solution market for Internet finance providers in terms of payment volume in 2017. The market size reached RMB1.9 trillion in 2017. Huifu ranked second among all the online lending payment service providers with a 20.1% market share in terms of payment volume in 2017. The chart below illustrates the ranking of the top three online lending payments market players in 2017:

### **Ranking of Online Lending Payments Market Players, 2017**

<b>Ranking</b>	<b>Company</b>	<b>Market Share</b>
1	Company E	25.4%
<b>2</b>	<b>Huifu (匯付天下)</b>	<b>20.1%</b>
3	Company F	14.7%

*2017's total payment volume of the PRC online lending payments market was RMB1.9 trillion*

*Source: Frost & Sullivan Analysis*



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## INDUSTRY OVERVIEW

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### **Future Trends of the Third-party Payments Market in China**

The future trends of third-party payments market in China include:

- Payments becoming more mobile and smart;
- Increasing popularity of value-added services based on payment services; and
- Third-party payment service providers in China gradually expanding into oversea payments markets.

Previously, the payment processing fee rate was primarily determined by the categories of merchants. The service fee rate of the catering and entertainment industry was the highest. After the fee rates reform was implemented on September 6, 2016, all merchants are charged a standard fee rate by issuing banks and clearing houses, and market-driven fee rates by third party payment service providers. Given the highly competitive environment, the payment processing service fee rates of Internet payment and mobile payment services have shown a downward trend. However, as merchants started to attach greater significance factors other than service prices, such as the quality, safety, conveniences and comprehensiveness of the payment services, the service fee rates remained relatively stable in 2016 and 2017. There is little room for further decreases in fee rates in the long run.

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### OVERVIEW

The third-party payments industry has developed from a rising to thriving trend in the past decade. As the major regulatory authority for third-party payment businesses, the PBOC, individually and jointly with other competent authorities of relevant businesses, including the SAFE, CSRC and NDRC, successively formulated the regulations and regulatory requirements of material importance in respect of deposit and management of client reserve funds, bankcard acquiring, network payment and other regulations and regulatory requirements related to third-party payment businesses, which has gradually established the regulation framework for the third-party payments industry in the PRC.

The PBOC is the central bank of the People's Republic of China and is also the primary regulatory authority for the third-party payment institutions. The PBOC shall, under the leadership of the State Council, implement monetary policies, perform its functions, take precautions against and reduce systematic financial risks and maintain financial stability. Other industry supervision authorities for the third-party payment institutions, including the SAFE, CSRC the NDRC and others, have formulated and issued regulations related to the third-party payments industry, such as (cross-border) foreign exchange payment transactions, fund sales payment businesses and pricing of bankcards acquiring service fees, etc.

Payment & Clearing Association of China (“PCAC”), approved by the State Council and Ministry of Civil Affairs for its establishment, is a self-disciplined organization of the PRC payment and clearing service industry. The operations of PCAC are governed by the PBOC, with its purpose of complying with the industry standards of the payment and clearing service industry.

UnionPay is a bankcard association in China that realizes interoperability and resource sharing among commercial banking systems through the interbank transaction clearing system which ensures interbank, inter-regional and cross-border bankcard usage. The PBOC supervises the interbank transaction of bankcards mainly through the interbank transaction clearing system of UnionPay. NetsUnion is jointly promoted and established by PCAC under the guidance of the PBOC, primarily handling the online payment business involved in bank accounts and launched by (non-bank) payment institutions.

In addition to the permits, licenses, approvals or consents already obtained by us, in accordance with the existing laws, regulations and regulatory rules of China, our principal business shall not be subject to other permits, licenses, approvals or consents. In light of the third-party payments industry being under continuous development and standardization, it is probable that the Company will still need to obtain other permits or approvals for its principal businesses in the future.

### REGULATIONS ON PAYMENT SERVICES OF NON-FINANCIAL INSTITUTIONS

According to Administrative Measures on Non-Financial Institutions Payment Services (《非金融機構支付服務管理辦法》) (“**Decree No. 2 of PBOC**”) promulgated by the PBOC on June 14, 2010 and implemented on September 1, 2010 and Detailed Rules for the Implementation of Administrative Measures on Non-Financial Institutions Payment Services promulgated and implemented on December 1, 2010, payment services provided by non-financial institutions refer to part or all of the following monetary transfer services provided by non-financial institutions as intermediaries between the payer and the payee, including: (1) network payment; (2) issuance and acceptance of prepaid cards; (3) bankcard acquiring; and (4) other payment services determined by the PBOC. Monetary capital transfers between payment institutions shall be entrusted to banking financial

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institutions and shall not be conducted in a form of depositing monetary capital with each other between such payment institutions or entrusting other payment institutions.

Non-financial institutions shall obtain the Payment License, and then engage in corresponding payment business. The Payment License shall be valid for five years from the date of issuance and shall be extended before expiry. Non-financial institutions or individuals shall not be engaged in or disguised in the payment transactions without the approval of the PBOC. If branches of a payment institution are engaged in payment transactions, such payment institution and its branches are required to make filings with branches of PBOC where they operate respectively. The payment institution shall be engaged in business activities in accordance with the business scope approved in the Payment License, shall not be engaged in payment services beyond the approved business scope, and shall not transfer, lease or lend the Payment License.

According to Decree No. 2 of PBOC, the business scope of the foreign investment payment institutions, the qualification conditions and the ratio of contributions of the foreign investors shall be stipulated separately by the PBOC and submitted to the State Council for approval. According to “Announcement No. 7 of the People’s Bank of China (2018) (《中國人民銀行公告 (2018) 第7號》)” (the “**No. 7 Announcement**”) issued by the PBOC on March 19, 2018 and took effect on the same day, upon approval by the State Council, pursuant to the Law of the People’s Republic of China on the People’s Bank of China and Decree No. 2 of PBOC, the relevant requirements of the foreign investment payment institutions include the following: (1) an overseas organization proposing to provide electronic payment services for domestic transactions and cross-border transactions of domestic entities in the PRC shall establish a foreign investment enterprise in the PRC, and obtain a payment business license in accordance with the criteria and procedures stipulated in Decree No. 2 of PBOC; (2) a foreign-funded payment organization shall possess a secured and standardized business system and a disaster recovery system in the PRC which can complete payment transactions independently; (3) storage, processing and analysis of personal information and financial information collected and generated in the PRC by a foreign-funded payment organization shall be carried out in China. Where it is necessary to transmit such information overseas for the purpose of processing cross-border transactions, the transmission shall comply with the provisions of laws, administrative regulations and the relevant regulatory authorities, the payment organization shall require the overseas entity(ies) to perform the corresponding information confidentiality obligations, and the consent of the owners of personal information is required; and (4) corporate governance, day-to-day operation, risk management, fund processing, deposit of reserves and contingency arrangements of foreign-funded payment organizations shall comply with the regulatory requirements of the PBOC for non-bank payment organizations. As confirmed by the PRC Legal Advisors of the Company, the PBOC has not yet promulgated any detailed measures for implementation of the No. 7 Announcement of PBOC.

### **Regulations on Network Payment**

Administrative Measures on Network payments by Non-bank Payment Institutions (《非銀行支付機構網絡支付業務管理辦法》) (“**Administrative Measures on Network payment**”) promulgated by the PBOC on December 28, 2015 came into force on July 1, 2016. According to Administrative Measures on Network payment, network payment refers to the activities that the payment institution provides the payer with capital transfer service when the payee or payer, through computers and mobile terminals, etc., remotely initiates payment instructions relying on public network information system, with no interaction between the payer’s electronic equipment and the payee’s special equipment. According to Decree No.2 of PBOC, the network payment businesses

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include currency exchange, Internet payment, mobile payment, telephone payment and digital television payment. Our approved network payment businesses currently include Internet payment (nationwide), mobile payment (nationwide) and telephone payment (nationwide).

The Administrative Measures on Network payment stipulates the customer management system of the payment institution, that is, management of a customer's real-name system. The individual payment accounts are divided into category I, II and III payment accounts according to the different validation methods and the degree of effectiveness of the validation. The larger number of legal and safe external cross-validation of the individual payment accounts and the more reliable methods of authentication provided, the higher the level of payment services available to the customer. The payment institution shall guarantee the authenticity, integrity, traceability of the transaction information and the consistency in the whole payment, and shall not tamper with or conceal the transaction information.

With regard to risk management and customer rights protection, the Administrative Measures on Network payment stipulates that the payment institution shall establish a sound risk reserve system and transaction compensation system. The payment institution shall, according to the customers' risk rating, transaction validation mode, transaction channel, transaction terminal or type of interface, transaction type, transaction amount, transaction time and merchant category, establish the transaction risk management system and the transaction monitoring system and take immediate measures, such as investigation and verification, delay of settlement and termination of services, to crack down on transactions suspected to be fraud, cashing out, money laundering, illegal financing, and terrorist financing, etc. Meanwhile, the Administrative Measures on Network payment further stipulates that the payment institution shall establish a sound risk reserve system and transaction compensation system, and guarantee the customer's legitimate rights and interests in full and timely payment of the financial losses that cannot be effectively proved to be resulted from the customer's reasons; moreover, in accordance with the provisions of the PBOC on customer information protection, effective customer information protection measures and risk control mechanisms shall be established to fulfill customer information protection responsibilities.

### *Regulations on payment of mutual funds sales*

The Administrative Measures on Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》) (“**Administrative Measures on Sales of Funds**”) was promulgated by CSRC on March 15, 2013 and came into force on June 1, 2013. According to the Administrative Measures on Sales of Funds, payment institutions that are engaged in fund sales, payment and clearing business shall (i) have a safe and efficient information system to conduct payment and settlement business; (ii) establish an effective risk control system; and (iii) meet other conditions stipulated by the CSRC. In addition, such payment institutions shall also obtain the Payment License, and the accounts of payment of mutual funds sales shall be effectively segregated from other business accounts. Moreover, according to relevant provisions, the opening, changing and revoking of the special settlement accounts for fund sales and clearing shall be filed with the CSRC and its branch office where the account holder is located. According to the List of Payment and Settlement Institutions for Public Funds Raising Distribution (April 2018) (《公開募集基金銷售支付結算機構名錄 (2018年4月)》) issued on the CSRC's official website on May 22, 2018, we are the first third-party payment institution to provide payment and settlement services for the public funds raising distribution institutions, and our cooperative funds distribution institutions include 47 fund management companies and three independent funds sales institutions.

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### *Regulations on the establishment of China Nets Union Clearing Corporation*

The Payment and Settlement Department of PBOC promulgated the Notice on the Transfer of Direct Connection Mode of Non-bank Payment Institution to NetsUnion Platform (《關於將非銀行支付機構網絡支付業務由直連模式遷移至網聯平台處理的通知》) (“**Notice on NetsUnion**”). According to the provisions of Notice on NetsUnion, PBOC shall direct PCAC to construct “network payment and clearing platform for non-bank payment institutions” (“**NetsUnion Platform**”), primarily handling the online payment business involved in bank accounts and launched by non-bank payment institutions. Notice on NetsUnion stipulates that network payment business related to a bank account by non-bank payment institutions is to be transferred from direct connect mode to the NetsUnion platform.

### **Regulations on bankcard acquiring business**

Administrative Measures on Bankcard Acquiring Services (“**Measures on Bankcard Acquiring**”) promulgated by the PBOC on July 5, 2013 came into force on the same day. According to the Measures on Bankcard Acquiring, bankcard acquiring business refers to that after signing of acceptance agreement by the acquiring institution and the merchant, the transaction fund settlement service shall be provided to the merchant after the special merchant accepts the bankcard and conclude the transaction with the cardholder according to the agreement. Acquiring institutions include payment institutions which provide offline merchants with bankcard acceptance and settlement services under Payment License of bankcard acquiring as well as payment institution which provide internet merchants with bankcard acceptance and settlement services under Payment License of network payment.

The Measures on Bankcard Acquiring requires the acquiring institution to conduct real-name management of the merchants and to follow the principle of “know your customer”; local business and management shall be carried out for acquiring business of entity merchants, acquiring services shall be provided through acquiring institutions or their branches in the provincial (district or city) domain where the merchant and its branches are located. No business shall be carried out on a cross-provincial (district or city) domain. Meanwhile, the Measures on Bankcard Acquiring requires the acquiring institution shall safeguard the legitimate rights and interests of the parties concerned according to law, and ensure information security and transaction security and the acceptance terminal (network payment interface) provided by the acquiring institution to its franchised merchants shall comply with the technical standards promulgated by the State and the financial industry as well as the relevant requirements on information security management.

The Measures on Bankcard Acquiring provides relevant business compliance requirements for non-bank payment institutions to engage in bankcard acquiring business, including setting up and sending acquiring transaction information according to the regulations. The institution shall conduct the fund settlement for merchants according to the agreed time limit and shall not intercept or misappropriate the funds to be settled of a merchant or cardholder. The institution shall coordinate with the dispatch of the issuing bank and shall assist with the risk warning investigation issued by the clearing house. The institution shall strictly manage outsourcing business, and perform the obligation to keep the account information confidential.

### *Regulations on outsourcing of bankcard acquiring business*

The PBOC promulgated Notice on the Management of Bankcard Acquiring Outsourcing (《關於加強銀行卡收單業務外包管理的通知》) (“**Notice on Outsourcing Management**”) on

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June 28, 2015. The Notice on Outsourcing Management defines the outsourcing limit of acquiring business, stipulating that, the verification of merchant qualification, execution of acceptance agreement, transaction processing of acquiring services, fund settlement, risk monitoring, the acceptance of generation and management of terminal secret keys, and error and disputes settlement, shall not be outsourced.

### *Pricing mechanism of bankcard transaction fee*

The NDRC and the PBOC promulgated the Notice on the Improvement of Pricing Mechanism of Bankcard Transaction Fee (“**96 Notice on Improvement of Pricing Mechanism**”) on March 14, 2016. According to the 96 Notice on Improvement of Pricing Mechanism, the pricing of bankcard acquiring processing fee became more market-driven, the original rules of UnionPay stipulating that the acquiring processing fees were shared among issuing banks, acquiring institutions and UnionPay in the proportion of approximately 70%, 20% and 10%, respectively was cancelled, the service fees charged by the merchant acquirers, also commonly known as third-party payment service providers in China, will be changed from the prevailing government-guided price to the market-adjusted price, and the specific rates shall be determined after negotiation between merchant acquirers and merchants. In addition, 96 Notice on Improvement of Pricing Mechanism also defines reducing the issuing bank’s service fees that the issuing bank’s service fees charged by issuing banks to merchant acquirers will be charged separately on debit cards and credit cards, the rate level of which shall be no more than 0.35% of the transaction amount by debit cards and no more than 0.45% of the transaction amount by credit cards. Meanwhile, it specifies reducing the rate of interchange fees and the control measures of the interchange fee cap, such that the interchange fee rates charged by bankcard clearing institutions to merchant acquirers shall not be higher than 0.0325% (not more than RMB3.25 for a single charge amount).

### **Regulations on Cross-border Payments**

#### *Cross-border Foreign Exchange Payments*

The Comprehensive Department of SAFE issued the Reply to Trial Foreign Exchange Payment Business of Cross-border Ecommerce of Eight Payment Institutions on September 16, 2013, approving the trial foreign exchange payment business of cross-border ecommerce of eight payment institutions including PnR Data. Our business scope covers the trading of goods, overseas education, air ticketing and hotel accommodation. Implementation on the Business Pilots of Cross-border Foreign Exchange Payment of Payment Institutions (“**Implementation on Cross-border Foreign Exchange Payment**”) promulgated by SAFE on January 20, 2015 came into force on the same day. The Implementation on Cross-border Foreign Exchange Payment stipulates that payment institutions with Payment License of network payments may submit to the local branch office of SAFE for verification application. The institution will obtain the qualification for the cross-border exchange payment upon the approval. The payment institutions which already opened pilots before the implementation of the Suggestions on Cross-border Exchange Payment are not required to apply.

#### *Cross-border RMB Payment*

Shanghai Implementation Rules on Cross-border RMB Payment of Payment Institutions (《關於上海市支付機構開展跨境人民幣支付業務的實施意見》) (“**Implementation Rules on Cross-border RMB Payment**”) promulgated by Shanghai Headquarter of the PBOC on February 18, 2014 came into force on the same day. The RMB cross-border payment business means providing payment services through the Internet for cross-border payers and payees who need to transfer RMB funds based on

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authentic transactions of non-free trade accounts. Cross-border RMB payment business involves bidirectional payment, including outbound and inbound payments, and no payment netting is allowed. Currently, we have completed the filing of cross-border RMB payment business. The Implementation on Cross-border RMB Payment does not involve any restrictive requirements on exchange rates.

### Regulations on the Management of Client Reserve Funds

The Decree No. 2 of PBOC stipulates that the ratio of the paid-in capital to the daily average balance of client reserve funds shall not be less than 10%. According to Decree No. 2 of PBOC, the client reserve funds received by payment institutions shall not be treated as own property of payment institutions; payment institutions may transfer client reserve funds based on the payment instructions sent by customers; payment institutions shall not embezzle client reserve funds in any form. Administrative Measures on Depository of Client Reserve Funds of Payment Institutions (“**Measures on Client Reserve Funds Depository**”) promulgated by the PBOC on June 7, 2013 came into force on the same day. Measures on Client Reserve Funds Depository stipulates that the payment institution shall deposit the full monetary capital (client reserve funds) received in advance to handle the payment business on behalf of the client, to the special deposit account opened by the payment institution with the depository bank. Measures on Client Reserve Funds Depository also strictly regulates the storage, accumulation, use, transfer and other depository activities of the client reserve funds.

Measures on Client Reserve Funds Depository also stipulates that a payment institution shall accrue risk reserve on a quarterly basis which shall then be deposited into a designated risk reserve deposit account opened in the depository bank or its authorized branch for the purpose of compensating against specific losses of client reserve funds and other purposes required by the PBOC. The risk reserve shall be calculated at a certain percentage of the total interests of all accounts of the reserve bank.

Notice on the Implementation of Centralized Deposit of Client Reserve Funds of the Payment Institution issued by the General Office of the PBOC (“**Notice on Deposit**”) was promulgated by the General Office of the PBOC on January 13, 2017. Notice on Deposit requires that the payment institution shall deposit the client reserve funds with a certain proportion to the special deposit account of the appointed authority. Under Notice on Deposit, interest shall not be paid on the client reserve funds.

The General Office of the PBOC issued Guidelines for Centralized Deposit of Client Reserve Funds by Payment Institutions (“**Operation Guidelines**”) on March 7, 2017, and it took effect on the same day. According to the Operation Guidelines, payment institutions shall, starting from April 17, 2017, designate a branch of provision depository bank at the place of the legal person as the depository bank, and the branch of the PBOC at the place of the depository bank shall open a special savings account to handle the deposit of client reserve funds.

The General Office of the PBOC issued Notice on Adjustment of Centralized Deposit Proportion of Client Reserve Funds by Payment Institutions (《關於調整支付機構客戶備付金集中交存比例的通知》) (“**Notice on Adjustment of Centralized Deposit Proportion**”) on December 29, 2017, which took effect on the same day. According to this notice, the original centralized deposit proportion shall still be executed in January 2018, and the centralized deposit proportion shall be increased by 10% monthly from February to April. Starting from the second quarter of 2018, the adjustment will take place quarterly.

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### **Regulations on Anti-Money Laundering and Anti-Terrorism Financing**

Anti-Money Laundering Law of the People's Republic of China (“**Anti-Money Laundering Law**”) promulgated by the Standing Committee of the National People's Congress on October 31, 2006 came into force on January 1, 2007. The Anti-Money Laundering Law stipulates that specific non-financial institutions, complying with their anti-money laundering obligations, shall take precautionary and monitoring measures and comply with their anti-money laundering obligations. The Anti-Money Laundering Law includes establishing a sound client identification system, client identification information and transaction record-keeping system, block transaction and suspicious transaction reporting system. According to the Decree No. 2 of PBOC, the payment institution that has obtained the Payment License shall comply with the regulations in the Anti-Money Laundering Law and anti-money laundering obligations. The PBOC and its branches shall conduct regular or occasional site inspections and non-site inspections of the anti-money laundering work of the payment institution in accordance with the law.

Measures for Anti-Money Laundering and Anti-Terrorism Financing of Payment Institutions (“**YF Decree No. 54**”), promulgated by the PBOC on March 5, 2012 came into force on the same day. YF Decree No. 54 stipulates that the payment institutions which have obtained the Payment License shall carry out the obligations of anti-money laundering and anti-terrorism financing in accordance with the law. The main aspects include client identification, client identification information, transaction record-keeping, suspicious transaction reports, anti-money laundering and anti-terrorism financing surveys, etc. The Management Measure on Large and Suspicious Transactions Reporting for Financial Institutions (amended in 2016) (“**Yin Fa No.3**”) was promulgated by the PBOC on December 28, 2016 and came into effect on July 1, 2017. Yin Fa No.3 stipulates that payment institutions shall fulfill their obligations of reporting large transactions and suspicious transactions and formulate internal management systems and operational regulations and procedures for reporting large transactions and suspicious transactions to establish a sound monitoring system for large transactions and suspicious transactions.

### **Other Industry Regulations Related to the Third-party Payment Business**

#### ***Regulations on Financial Consumers Protection***

Implementation Measures of the PBOC for Protecting Rights and Interests of Financial Consumers promulgated by the PBOC on December 14, 2016 came into force on the same day. The regulations provided that non-bank payment institutions shall adopt a series of internal management measures to protect the rights and interests of financial consumers, including optimizing rules and policies as well as establishing a sound working mechanism and formulating an effective internal control system for protecting the rights and interests of financial consumers. The regulations also require non-bank payment institutions to protect the personal financial information of consumers, including personal identification information, property information, account information, credit information, financial transaction information and other information that reflects certain specific personal statuses. Since December 2015, relevant domestic regulations have required us to disclose complaints lodged by internet users on the payment services on our own platform.

#### ***Regulations on Detection and Authentication Management of Payment Business System***

Regulations on Inspection and Verification of Non-financial Institutions Payment Service Business System promulgated by the PBOC on June 16, 2011 came into force on the same day. The



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Regulation implements business safety management requirements for the third-party payment institution business system and communication system, etc. The PBOC is responsible for the approval and management of inspection and qualification verification. Certification institutions which are recognized and approved by relevant national authorities as well as certified and authorized by the PBOC are qualified to conduct inspections and certifications on the business system of third-party payment institutions.

### ***Regulations on QR Payment Business Standard***

According to the Rules for the QR Payment Business Standard (Trial) (the “**Rules**”) issued by the PBOC on December 25, 2017, which came into force on April 1, 2018, it is expressly stipulated that the QR payment business is such business activities in which banking financial institutions or non-bank payment institutions apply QR technologies to realize the transfer of monetary funds among the payers and payees, including payment code scanning and receipt code scanning. The Rules provides that a non-bank payment institution which conducts QR payment business shall obtain the relevant license as required and conduct the business in a standard manner in accordance with the corresponding administrative measures.

### **REGULATIONS ON VALUE-ADDED TELECOMMUNICATION BUSINESS**

Regulations on Telecommunication of the People’s Republic of China (“**Regulations on Telecommunication**”) promulgated by State Council of the PRC on September 25, 2000, latest came into force on February 6, 2016, is the main supervision law for telecommunication business. According to Regulations on Telecommunication, telecommunication services are divided into telecommunication business and value-added telecommunication business. Telecommunication service providers shall operate after the acquisition of corresponding business permits.

Measures for Administration of Telecommunication Business Permit (“**Measures for Telecommunication Permit**”) promulgated by the MIIT on March 1, 2009 came into force on April 10, 2009. The Measures for Telecommunication Permit was revised on July 3, 2017 and the latest revision came into force on September 1, 2017. According to Measures for Telecommunication Permit, Chinese operators shall, apply for a Basic Telecommunication Business Permit or Value-added Telecommunication Business Permit (“**Value-added Telecommunication Business Permit**”) according to different business contents in accordance with the requirements. Operators of telecommunications services shall operate only on the basis of the specific scope of the value-added telecommunication business permit.

Measures for Administration of Internet Information Services (“**Measures for Internet**”) promulgated by State Council of the PRC on September 25, 2000 was revised in January 8, 2011 and became effective on the same date. According to the Measures for Internet, operational internet information service operators shall be engaged in any business Internet information service in China after the acquisition of internet and information service licenses from relevant government institutions. The engagement in operational internet information services requires an application to the provincial, autonomous and municipal telecommunication administration or information industry authorities of the State Council for the approval of Value-added Telecommunication Business Permit.

### **Regulations on Information Security and Privacy Protection**

The Standing Committee of the National People’s Congress promulgated the Decision on Strengthening Information Protection on Networks in December 2012 to strengthen the legal protection

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on security and privacy of Internet information. Regulations on Personal Information Protection of Internet User of Telecommunications and Internet (“**Regulations on Information Protection**”) promulgated by MIIT on July, 2013 came into force on September 1, 2013. According to Regulations on Information Protection, internet information service providers and their employees are required to maintain strict confidentiality of user personal information collected or used when providing services. The information shall not be disclosed, modified or damaged; or sold or provided illegally to others.

### **Regulations on Mobile Applications**

The China Internet Network Information Center promulgated the Provisions on the Administration of Mobile Internet Applications Information Service (“**Application Administrative Provisions**”) on June 28, 2016, which came into effect on August 1, 2016. The Application Administrative Provisions stipulates information services provided by Internet application providers through mobile Internet applications in China.

### **Regulations on Restraining the Foreign Investment on Value-added Telecommunication Business**

In accordance with the Provisions on the Administration of Foreign-Funded Telecommunication Enterprises (**the Provisions on Foreign-Funded Telecommunication Enterprises**) and relevant provisions issued on December 11, 2001 and amended on September 10, 2008 and February 6, 2016 respectively, the final foreign equity ratio of value-added telecommunication service supplier shall be not more than 50% except the businesses of online data processing and transaction processing (ecommerce operation). The foreign investor must be conforming to a series of strict requirements regarding performance and operation, including the sound performance records and experience of value-added telecommunication operated abroad. Based on the public information, the relevant competent department of telecommunication in China only issued rare Value-added Telecommunications Business Operating License. The Catalog for the Guidance of Industries for Foreign Investment amended by the NDRC and the MOFCOM in 2017 has also added an additional restriction of 50% foreign equity ratio on the value-added telecommunication business except the ecommerce operation.

## **REGULATIONS ON COMMERCIAL FACTORING**

The Notice by the Ministry of Commerce of the People’s Republic of China on the Relevant Works of Pilot Projects of Commercial Factoring (“**Notice on Pilot Projects of Commercial Factoring**”) has been released on June 27, 2012 by the MOFCOM and put into effect on the same day. The Notice on Pilot Projects of Commercial Factoring has agreed to conduct the pilot project of commercial factoring in Tianjin Binhai New District, and Shanghai Pudong New District and the commercial factoring company shall provide the enterprises with the trade financing, management of sales subsidiary ledger, investigation and assessment of customer credit, management and collection of receivables, credit risk guaranty and other services. The competent department of commercial factor shall also be the commercially competent department in the area of pilot project.

## **REGULATIONS ON FOREIGN INVESTMENT**

The Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises (modified on September 3, 2016) and the Rules for Implementation of the Law of the People’s Republic of China on Wholly Foreign-Funded Enterprises (modified on February 19, 2014) have stipulated the setup procedure of wholly foreign-owned enterprises, regulations on registered capital, affairs of foreign

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exchange, accounting practice, taxation and labor service, and other relevant issues. The Decisions by the People's Congress Standing Committee about Modification of the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises and Other Four Laws issued by the People's Congress Standing Committee in September 2016 has modified the procedure of foreign investor investment in China to require the foreign-investor investment in the commercial industry beyond the restriction of access special management measures to file. Thus, the approval application shall be unnecessary afterwards. According to the notice issued by the NDRC and the MOFCOM on October 8, 2016, the access special management measures shall be executed by referring to the relevant rules in the Catalog for the Guidance of Industries for Foreign Investment limiting, prohibiting and encouraging the foreign investment industry, the foreign investment industry. In accordance with the Provisional Method on Management of Setup and Change of Foreign-Funded Enterprises modified by the MOFCOM on July 30, 2017, if the setup and change of foreign-funded enterprises does not involve in applying the national access special management measures are not required to get review and approval but file in the relevant commercial department.

The Draft Foreign Investment Law has been issued by the MOFCOM in January 2015 to collect the public opinion. The Draft Foreign Investment Law has expanded the definition of foreign investment and introduced the actual control principle for determining whether the company is to be regarded as a foreign-funded enterprise. The Draft Foreign Investment Law shall define "control" into the following types widely: (i) hold the equity, asset, voting rights or similar stock rights of target entity of not less than 50% directly or indirectly; (ii) hold the equity, asset, voting rights or similar stock rights of target entity less than 50% directly or indirectly; but have the rights to directly or indirectly appoint not less than half of the members of the board of directors or similar decision-making bodies of the enterprise; or have the ability to ensure that its nominees occupy not less than half of the seats on the board of directors or similar decision-making bodies of the enterprise; or hold voting rights sufficient to exert material influence over the resolutions of the shareholders' meetings, general meetings, board of directors or other decision-making bodies; or (iii) have the rights to perform the decisive influence in operation, finance, human resources and technical issues of target entity or other key items of business operation through the agreement or trust arrangement; There is a special rule in the Draft Foreign Investment Law that enterprise funded in China but controlled by the foreign investor finally shall be regarded as a foreign-funded enterprise. As per the Draft Foreign Investment Law, the variable interest entity shall be considered as a foreign-funded enterprise and limited by the foreign investor accordingly in case of being controlled by the foreign investor finally. If the Draft Foreign Investment Law comes into effect, the three existing laws regulating the foreign investment within China, namely the Law of Sino-foreign Joint Venture of the People's Republic of China, the Cooperative Enterprise Law of the People's Republic of China and the Law of the People's Republic of China on Wholly Foreign-owned Enterprises, shall be canceled together with the detailed rules of implementation and affiliated rules. But recently, if any potential influence of the time of effectiveness and implementation and the final version of the Draft Foreign Investment Law on the company having variable entity structure within China is sure or not;

### **REGULATIONS ON FOREIGN EXCHANGE**

#### **Regulations on Conversion of Foreign Exchange**

The State Council of the People's Republic of China has released the Regulations for Foreign Exchange Management of the People's Republic of China (as revised on August 5, 2008) on January 29, 1996 that came into effect on the same day. As per the Regulations for Foreign Exchange

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## REGULATORY ENVIRONMENT

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Management, the items of convertible RMB shall be inclusive of distributed dividend, interest payments, foreign exchange trade relevant to trade and interest and others; meanwhile, the limitation on direct investment, loan, returned investment, foreign investment securities in China, and other free convertible RMB of capital projects shall be executed; but it can be exempted in case of the prior approval and registration in the SAFE completed.

The Notice about Reform of Management Method on Exchange Settlement of Capital Fund of Foreign-Funded Enterprises (“**SAFE Circular 19**”) has been released by the SAFE on March 30, 2015 and came into effect from June 1, 2015. On June 9, 2016, the Notice about Reform of Management Method on Exchange Settlement of Capital Fund of Foreign-Funded Enterprises (HF (2016) No. 16) (“**SAFE Circular 16**”) has been released and came into effect on the same day. SAFE Circular 19 and SAFE Circular 16 released by the SAFE has restrained the channel of foreign-funded company of converting the capital registered in foreign currency into RMB and utilization purpose. Moreover, it prohibits the capital owner of RMB utilizing in the business beyond the business cope directly or indirectly or borrowing from the non-affiliated side.

Since 2012, the SAFE has made significant modifications and simplified the conversion procedures for foreign exchange. The SAFE shall not conduct the approval or check on the opening of a foreign exchange account having a special purpose, reinvestment by foreign investors of RMB in China, profits on foreign exchange and dividends remitted by the foreign-funded enterprises to shareholders in foreign countries, and other issues. A company located in China shall be able to provide the cross-border loan to the foreign affiliated company, foreign parent company and affiliated staff. On May 10, 2013, the Notice about Issuance of Provisions on Administration of Direct Investment in Foreign Exchange of Foreign Investor in China and Auxiliary Document was released by the SAFE, requiring the SAFE or other local branches to conduct the registration management on the direct investment of foreign investors in China. The bank shall manage the direct investment of foreign investors in China based on the registration method provided by the SAFE or other local branch and the business of foreign exchange of direct investment in China as per the registration information provided by the SAFE. Additionally, the Notice about Further Simplification and Improvement of Management Policy of Direct Investment in Foreign Exchange (“**SAFE Circular 13**”) has been issued by the SAFE on February 13, 2015 and came into effect from June 1, 2015. SAFE Circular 13 issued by SAFE has stated that the direct investment in foreign exchange beyond China shall be registered by the bank according to the relevant rules of SAFE. It has simplified the registration procedure of foreign exchange of direct investment in or out of China.

### **Regulations on Dividend Distribution**

According to the Companies Law of the People’s Republic of China; the Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises, the Wholly Foreign-Funded Enterprises in China shall take the accumulated after-tax profit (if any) calculated as per the Chinese Accounting Standard and Rules as the public accumulation fund; but the accumulated amount reserved shall be beyond this limitation in case of no less than 50% of registered capital of enterprise; The wholly foreign-funded enterprises shall distribute the partial after-tax profit to the staff welfare or use as the bonus fund calculated according to Chinese Accounting Standard and Rules.

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### **Regulations on Registration of Overseas Investment in Foreign Exchange by Chinese Resident**

SAFE issued Circular on Foreign Exchange Administration of Overseas Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles on October 21, 2005 (“**SAFE Circular 75**”), taking effect since November 1, 2005. As required by SAFE Circular 75, a special purpose vehicle shall refer to an overseas enterprise directly established or indirectly controlled by a domestic resident legal person or domestic resident natural person for the purpose of engaging in equity financing (including convertible bond financing) abroad with the enterprise assets or interests it/he holds in China. It’s also regulated that SAFE and its branches shall manage the registration and administration of the special purpose vehicle established by any domestic resident. In addition, should a substantial alternation of capital arises to the special purpose vehicle, such as any increase or decrease in the capital, equity transfer or replacement, merger or division, long-term equity or debt investment, provision of security to foreign entities, where round-trip Investment is not involved, the relevant domestic resident shall file an application for alteration or documentation formalities in respective of his foreign exchange registration with SAFE within 30 days as of the date which such alteration takes place.

The Notice of State Administration of Foreign Exchange of the People’s Republic of China on Relevant Issues of Management of Overseas Investment, Financing, Return Investment in Foreign Exchange of Domestic Resident via the Company Having Special Purpose (“**SAFE Circular 37**”) has been issued by the SAFE on July 4, 2014 and coming into effect on the same day, and SAFE Circular 75 lapsed simultaneously. According to SAFE Circular 37, the company having the special purpose refers to the enterprise setup abroad or overseas enterprises controlled indirectly by the domestic resident taking the financing and investment as the purpose and domestic enterprise asset or interest held legally; or foreign asset or interest held legally. Moreover, it is stated that the registration management shall be implemented by the SAFE and local branch for the company having a special purpose set up by the domestic resident. In addition, the Chinese resident or entity shall update the registration information in the SAFE after any change of fundamental information (including the Chinese citizen or resident, change of name and duration of operation), increase and decrease of investment quota, transfer or exchange of shares, consolidation or discrete and other important issues. The SAFE Circular 37 merely stipulates that it shall prevail when the previous relevant provisions are inconsistent with its contents; but it does not stipulate that the subjects that have completed foreign exchange registration according to SAFE Circular 75 need to reregister in accordance with SAFE Circular 37.

### **Regulations on Equity Incentive Plan**

The Notice of the State Administration of Foreign Exchange of the People’s Republic of China about Several Issues on Management of Domestic Individual Participating in Equity Incentive Plan of Overseas-Listed Company and Foreign Exchange (“**Rules of Stock and Equity**”) has been released by the SAFE and came into effect on the same day. According to the rules of stock and equity and other relevant rules, the Chinese resident joining in the equity incentive plan of an overseas-listed company shall finish the registration and other several procedures in the SAFE and the local branch. The Chinese resident joining in the equity incentive plan must entrust one domestic agent to handle the registration in the SAFE, opening of bank account, capital transfer and other procedures relevant to the equity incentive plan. At the same time, an overseas institution shall also be entrusted to perform the exercise, trade the corresponding shares or equities, capital transfer and other issues. The foreign exchange income of a Chinese resident selling the shares according to the equity incentive plan, and

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the dividend distributed by the overseas-listed company, shall be distributed to the Chinese resident after being remitted to the bank account in China opened by the domestic institution.

### REGULATIONS ON ADVERTISING

Pursuant to the Advertising Law of the People's Republic of China ("**Advertising Law**") revised by the Standing Committee of the National People's Congress on April 24, 2015 and came into effect on September 1, 2015, advertisers, advertising operators and advertising publishers are required to ensure that the contents they produce or distribute are authentic and in compliance with applicable laws and regulations. The Advertising Law stipulates certain advertising content, promulgating target, publishing methods.

The Interim Measures for the Administration of Internet-Based Advertising ("**Internet-Based Advertising Administration Measures**") was promulgated by SAIC on July 4, 2016 and came into effect on September 1, 2016, which stipulates behaviors including but not limited to posting of advertisements on websites, web pages and applications in the form of words, pictures, audio and video, and provides more detailed guidelines on the behaviors of advertisers, advertising operators and advertising publishers.

### REGULATIONS ON INTELLECTUAL PROPERTY

#### Regulations on Trademark

The Trademark Law of the People's Republic of China (revised in 2013) promulgated by the Standing Committee of the National People's Congress on August 23, 1982 and respectively revised on February 22, 1993, October 27, 2001 and August 30, 2013, and the Regulation on the Implementation of the Trademark Law of the People's Republic of China (revised in 2014) promulgated by the State Council on August 3, 2002 and revised on April 29, 2014, stipulate the application, examination and approval, renewal, alteration, transfer, use and invalidation of trademark registration, and protect the trademark rights entitled to trademark registrants.

#### Regulations on Copyright

The Copyright Law of the People's Republic of China (as amended in 2010) ("**Copyright Law**") revised by the Standing Committee of the National People's Congress on February 26, 2010 and came into effect on April 1, 2010 stipulates that Chinese citizens, legal persons or other organizations whose works, including, among other things, literature, arts, natural sciences, social sciences, engineering and computer software, whether published or not, are entitled to copyright.

Measures for the Registration of Computer Software Copyright promulgated by the National Copyright Administration on February 20, 2002 and was effective on the same day stipulates the registration of software copyright, the exclusive license of software copyright and the registration of transfer contracts. The Copyright Protection Center of China will register and submit the corresponding registration certificate in regard to application of software copyright owners fulfilling the Measures for the Registration of Computer Software Copyright and Regulations for the Protection of Computer Software (revised in 2013).

#### Regulations on Domain Names

Measures for the Administration of Internet Domain ("**Domain Administration Measures**") was promulgated by the MIIT on August 24, 2017 and came into effect on November 1, 2017, which

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## REGULATORY ENVIRONMENT

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stipulates that the establishment of domain name root servers, institutions operating domain name root servers, domain name registration and management institutions and domain name registration service institutions shall obtain approval from relevant information technology authorities in accordance with the provisions. Domain name services follow the principle of “first application, first registration.” The Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services promulgated by the MIIT (“**Use of Domain Names Notice**”) on November 27, 2017 and came into effect on January 1, 2018 stipulates internet information service providers as its main target on the overall anti-terrorism and obligations of maintaining network security.

### **Regulations on Patents**

Pursuant to the Patent Law of the People’s Republic of China (as amended in 2008) (“**Patent Law**”) promulgated by the Standing Committee of the National People’s Congress and the Detailed Rules for the Implementation of the Patent Law of the People’s Republic of China (revised in 2010) promulgated by the State Council, patents are divided into invention, utility model and appearance design. The patent right period for invention is 20 years from the date of application, and the patent right period for both appearance design and utility model is 10 years from the date of application. The Patent Law and its implementing rules stipulate that a patentee’s patent right entitlement is protected by law.

### **REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE**

In accordance with the Labor Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China, and the Rules for Implementation of Labor Law of the People’s Republic of China, labor relations between employer and labor shall be agreed in written. The employer shall set up the system of labor safety and health, follow national standards strictly, and provide relevant education for its labor force. In addition, the workforce must work in a the safe and healthy environment. The wages paid by the employer to the labor shall be no less than the local minimum salary standard.

According to the Social Insurance Law of the People’s Republic of China, the Provisional Regulations on Collection and Payment of Social Insurance Premiums, and the Regulations on Administration of Housing Accumulation Funds and other Chinese laws, rules and regulations, the employer shall contribute to the several social security funds (including basic endowment insurance, unemployment insurance, basic medical insurance, employment injury insurance, maternity insurance) and the housing fund based on the legal contribution basis and contribution ratio. If it fails to make a full contribution to local administration department on time, the employer may be ordered to make up the difference or be fine.

### **REGULATIONS ON TAX COLLECTION**

#### **Enterprise income tax**

As per the EIT Law valid from January 1, 2008 and subsequently modified on February 24, 2017, and the rules for implementation, the enterprises shall be inclusive of resident enterprises and non-resident enterprises. A Chinese resident enterprise shall contribute the enterprise income tax at the tax rate of 25%, while the non-Chinese resident enterprise without an established branch in China must pay the enterprise income tax at 10% of income gained in China. An enterprise established out of

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## REGULATORY ENVIRONMENT

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China but having its actual management located in China shall be regarded as a resident enterprise, namely the enterprise income tax as per the method applicable to a Chinese domestic enterprise. The EIT Law has defined actual management authority as the actual authority conducting the physically comprehensive management and control on the production and operation, staff, accounting, property and others of enterprise.

According to the requirements of the EIT Law and the rules for implementation, if the investor (1) doesn't set up the organization or office in China; or (2) sets up the organization or office in China but the relevantly actual income has nothing to do with the relevant organization or office and the relevant dividend from China, the dividend paid to the investor of a non-resident enterprise and the income gained by the investor shall be taxed for income at the applicable tax rate of 10%. The income tax applicable on dividends shall be reduced according to the tax agreement signed by China and other juridical regions.

According to the EIT Law, the tax rate applicable to the enterprise income tax of hi-tech enterprise shall be 15%. In accordance with the Measures for Administration of Recognition of Hi-tech Enterprise effective from January 1, 2008 and modified on January 29, 2016, the enterprise shall complete and submit the relevant intellectual property, scientific and technical staff, R&D expenses, and business income of previous year and other annual status in the required official website following its qualification as a hi-tech enterprise. Moreover, the relevant changes information shall be timely reported to the competent authority timely in case of significant changes. The hi-tech enterprise defined shall have its be canceled with the qualification as a hi-tech enterprise canceled and the preferential tax shall be paid back if it is found not to have qualification during the daily management of the relevant department. The valid period of hi-tech enterprise certificate shall be three years.

### **Business Tax and Value-added Tax**

In accordance with the Provisional Regulations of the People's Republic of China on Business Tax (Regulations on Business Tax) effective from January 1, 1994 and modified on November 10, 2008, and the detailed rules of implementation, all the enterprises and individual providing the taxable service, transferring intangible assets or selling real estate within China. The Table of Business Tax Item attached to the Regulations of Business Tax has stipulated the taxable service scope and business tax rate.

As per the Provisional Regulations on Value-added Tax issued on December 13, 1993, and modified in 2008, 2016 and 2017 by the State Council; and the Detailed Rules for Implementation of Provisional Regulations on Value-Added Tax, issued by the Ministry of Finance of the People's Republic of China on December 18, 2008 and modified by the Ministry of Finance of the People's Republic of China and the State Administration of Taxation on October 28, 2011, all the tax payers selling the goods, providing services of process, repair and fitting or importing of goods within China shall pay the value-added tax.

The Ministry of Finance of the People's Republic of China and the State Administration of Taxation have launched the Pilot Plan of Business Tax Changing into Value-added Tax (Pilot Plan of Value-added tax) on November 16, 2011 and implemented from January 1, 2012 to change into the value-added tax from the business tax for the partial modern service industries in the pilot area. It was then be expanded nationwide in 2013. The Notice of the Ministry of Finance of the People's Republic of China and the State Administration of Taxation about Overall Promotion of Pilot of Business Tax



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Changing to Value-added Tax has been released on March 23, 2016 by the Ministry of Finance of the People's Republic of China and the State Administration of Taxation and coming into effect from May 1, 2016. The company and individual selling service, intangible asset or real estate within China shall pay the value-added tax rather than the business tax.

The State Council has released the Decision of State Council about Abolishment of Provisional Regulations of the People's Republic of China on Business Tax and Modification of Provisional Regulations of the People's Republic of China on Value-added Tax and put into effect on November 19, 2017. Moreover, it has decided to cancel the Provisional Regulations of the People's Republic of China on Business Tax.

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## HISTORY AND REORGANIZATION

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### GENERAL

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on December 21, 2017. As part of the Reorganization, our Company became the holding company of our Group for the purpose of the Listing with our businesses conducted through our subsidiaries and Operating Entities. See “—Our Reorganization” in this section for further details.

### HISTORY

Our business was established at the initiative of our founders, Mr. ZHOU Ye, Mr. LIU Gang and Ms. MU Haijie (the “**Management**”) by leveraging their years of expertise, experience and resources gained in the payments industry. Our origins trace back to June 2006, when China PnR was incorporated to engage in Internet payment services.

We gradually penetrated into various payment businesses and we provide customized solutions to enterprise customers in selected industry verticals in order to meet their unique needs. We have over time established ourselves as a leading third-party payment service provider in the airline ticketing industry and the Internet finance industry and among micro and small merchants, leveraging our core technology and innovative business models. In addition, we also provide fintech enabling services to Internet finance providers and commercial banks. As of the Latest Practicable Date, we have become a leading independent third-party payment solution provider in the PRC, focusing on merchant payment and fintech enabling services.

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

<u>Date</u>	<u>Event</u>
2007	We launched the first customized payment solution for the airline ticketing industry by connecting airlines, ticketing agencies and customers.
2010	We were the first third-party payment service provider to be authorized to offer payment and settlement services for fund sales.
2011	We were among the first group of companies to obtain the Payment License from the PBOC.
2012	We were the first to build an ISO network for the distribution of our POS services.
2013	We became one of the first groups of companies to receive the Cross-border Payment Service Permit issued by the SAFE.
2013	We were the first to offer account management services for Internet finance providers.
2015	We launched an integrated mobile POS solution, SuPay (閃電寶), to serve micro and small merchants in China.
2018	Recognizing our market leadership and innovation capability, UnionPay entered into a comprehensive strategic cooperation agreement with us on March 8, 2018 to jointly conduct marketing campaigns, promote value-added services, and reach a broader client base in China and overseas.

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## HISTORY AND REORGANIZATION

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### OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

As of the Latest Practicable Date, our Company had five directly and indirectly owned subsidiaries and two controlled Operating Entities, and three of them principally affected the results, assets, liabilities or businesses of the Group (the “**Principal Subsidiaries**”). Details of our Principal Subsidiaries are set out below:

#### 1. PnR Network

PnR Network was established as a wholly foreign-owned enterprise in the PRC by PnR Holdings on November 7, 2006. PnR Network mainly holds intellectual properties and provides relevant corporate management consultation and services to our Operating Entities. As part of the Reorganization, PnR Holdings transferred all its shareholdings in PnR Network to our Company on December 25, 2017, and PnR Network became our wholly-owned subsidiary. See paragraph headed “—Our Reorganization” in this section for further details.

#### 2. China PnR

China PnR was established as a limited liability company in the PRC on June 23, 2006. It is one of the major Operating Entities of our Group. China PnR holds the ICP License and mainly provides complementary services to our merchant payment services and also administrative functions to us. It is controlled by PnR Network through contractual arrangements. See “Contractual Arrangements” for further details.

#### 3. PnR Data

PnR Data was established as a limited liability company in the PRC on April 28, 2007. PnR Data holds the Payment License and is our Group’s main entity conducting merchant payment services and fintech enabling services businesses, and generates the majority of our Group’s revenue. As of the Latest Practicable Date, PnR Data was wholly owned by China PnR.

### MATERIAL SHAREHOLDING CHANGE AND PRE-IPO INVESTMENTS

#### Pre-IPO Investment from 2006 to 2010

On July 7, 2006, PnR Holdings was incorporated as an exempted company with limited liability in the Cayman Islands with an authorized capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. Upon its incorporation, PnR Holdings issued 1 ordinary share to Offshore Incorporation (Cayman) Limited for a consideration of US\$1, who transferred the ordinary shares to Trixen on the same date at the same price.

On September 5, 2006, the Management, Management Company, Trixen and PnR Holdings entered into an investment agreement, pursuant to which (i) Trixen agreed to subscribe another 4,999,999 ordinary shares issued by PnR Holdings and to transfer certain issued shares of PnR Holdings to the Management Company upon satisfaction of certain business development milestones as set out therein; (ii) PnR Network agreed to enter into a series of contractual arrangements with China PnR; and (iii) Trixen agreed to advance a loan of US\$3,500,000 to PnR Holdings to be used by PnR Holdings to support the daily operation of China PnR. On September 19, 2006, PnR Holdings issued 4,999,999 ordinary shares to Trixen for a consideration of US\$9,999,999. Immediately after such allotment, PnR Holdings was wholly-owned by Trixen. In February 2007, PnR Network entered

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## HISTORY AND REORGANIZATION

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into the contractual arrangements with China PnR as agreed in the investment agreement. As of December 1, 2008, the Management Company had obtained 1,000,000 ordinary shares of PnR Holdings from Trixen. Immediately after such share transfer, PnR Holdings was owned as to 80% and 20% by Trixen and the Management Company, respectively.

The table below sets out the principal terms of the Pre-IPO Investment by Trixen in 2006:

<b>Name of Pre-IPO Investor</b>	<b>Trixen</b>
<b>Date of investment</b>	September 5, 2006
<b>Number of shares subscribed<sup>(1)</sup></b>	4,000,000 ordinary shares <sup>(3)</sup>
<b>The consideration paid</b>	US\$10,000,000
<b>Closing date</b>	September 19, 2006
<b>Cost per share paid by each Pre-IPO Investor</b>	US\$2.5 <sup>(3)</sup>
<b>Discount to the Offer Price<sup>(1)(2)</sup></b>	94.77% <sup>(4)</sup>
<b>Basis of consideration</b>	Based on arm's length negotiations between the relevant parties after taking into consideration the timing of the investments and the status of our business and Operating Entities.

*Note:*

- (1) PnR Holdings will repurchase its preferred shares and ordinary shares held by the Pre-IPO Investors and the Management Company (except for two ordinary shares held by the Management Company), and PnR Holdings will transfer the same number of ordinary shares of our Company to the Pre-IPO Investors and the Management Company immediately prior to the completion of the Global Offering. See paragraph headed "—Our Reorganization" in this section for further details.
- (2) Calculated on the assumption that the price paid per share is adjusted for the dilutive effect of the Global Offering and the Offer Price is HK\$7.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$6.50 to HK\$8.50 per Offer Share.
- (3) As the result of this round of Pre-IPO investment, Trixen acquired 4,000,000 ordinary shares of PnR Holdings for the consideration of US\$10,000,000.
- (4) All share capital of PnR Holdings (a) with a par value of US\$1 was subdivided by 10 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.1 each on June 3, 2010, (b) was subdivided by 100 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.001 each on September 7, 2011, and (c) was further subdivided by 5 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.0002 each on January 30, 2015. For illustration purposes, the discount here does not take into account the share subdivision mentioned in (b) above.

On May 1, 2010, Trixen transferred 580,000 ordinary shares of PnR Holdings to the Management Company with nil consideration so that Trixen and the Management Company held 3,420,000 and 1,580,000 ordinary shares of PnR Holdings, respectively. On June 3, 2010, all ordinary shares of PnR Holdings with a par value of US\$1 were subdivided by 10 into ordinary shares with a par value of US\$0.1, and PnR Holdings subsequently issued 13,680,000 and 6,320,000 of its ordinary shares to Trixen and the Management Company, respectively, pursuant to capitalization of US\$2,000,000 of its share premium, and as a result, Trixen and the Management Company held 47,880,000 and 22,120,000 ordinary shares of PnR Holdings, respectively.

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On June 3, 2010, Trixen further decided to convert the outstanding loan it extended to PnR Holdings in an amount of US\$3,000,000 into PnR Holdings' ordinary shares. The table below sets out the principal terms of such conversion:

<b>Name of Pre-IPO Investor</b>	<b>Trixen</b>
<b>Date of investment</b>	June 3, 2010
<b>Number of shares subscribed<sup>(1)</sup></b>	20,520,000 ordinary shares <sup>(3)</sup>
<b>The consideration paid</b>	US\$3,000,000
<b>Closing date</b>	June 3, 2010
<b>Cost per share paid by each Pre-IPO Investor</b>	US\$0.1462 <sup>(3)</sup>
<b>Discount to the Offer Price<sup>(1)(2)</sup></b>	96.94% <sup>(4)</sup>
<b>Basis of consideration</b>	Based on arm's length negotiations between the relevant parties after taking into consideration the timing of the investments and the status of our business and Operating Entities.

*Note:*

- (1) PnR Holdings will repurchase its preferred shares and ordinary shares held by the Pre-IPO Investors and the Management Company (except for two ordinary shares held by the Management Company), and PnR Holdings will transfer the same number of ordinary shares of our Company to the Pre-IPO Investors and the Management Company immediately prior to the completion of the Global Offering. See paragraph headed "—Our Reorganization" in this section for further details.
- (2) Calculated on the assumption that the price paid per share is adjusted for the dilutive effect of the Global Offering and the Offer Price is HK\$7.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$6.50 to HK\$8.50 per Offer Share.
- (3) PnR Holdings issued 30,000,000 of its ordinary shares to Trixen on June 3, 2010 and Trixen subsequently transferred 9,480,000 ordinary shares of PnR Holdings to the Management Company on the same date. As the result, Trixen acquired 20,520,000 ordinary shares of PnR Holdings for the consideration of US\$3,000,000, and Trixen and the Management Company held 68,400,000 and 31,600,000 ordinary shares of PnR Holdings, respectively.
- (4) All share capital of PnR Holdings (a) with a par value of US\$0.1 was subdivided by 100 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.001 each on September 7, 2011, and (b) was further subdivided by 5 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.0002 each on January 30, 2015. For illustration purpose, the discount here does not take into account the share subdivision mentioned in (a) above.

### **Pre-IPO Investment from 2010 to 2011**

On June 4, 2010, PnR Holdings, Bright Journey and Eight Roads Ventures, among others, entered into the Series A Preferred Share Purchase Agreement, pursuant to which Bright Journey and Eight Roads Ventures agreed to subscribe for 9,668,375 and 16,919,656 series A preferred shares of PnR Holdings with a par value of US\$0.1 each, respectively, at a price of US\$1.0343 per share with a consideration of US\$10,000,000 and US\$17,500,000, respectively. On July 1, 2011, PnR Holdings further adjusted this round of investment to issue an additional 1,442,736 and 2,524,788 of its series A preferred shares to Bright Journey and Eight Roads Ventures, respectively, at nil consideration.

On June 4, 2010, PnR Holdings also granted Eight Roads Ventures a warrant to subscribe for up to 2,510,684 of its series A preferred shares with a par value of US\$0.1 in the capital of PnR Holdings at US\$0.9957 per series A preferred share. Eight Roads Ventures exercised the aforementioned warrant in full on September 7, 2011 with a consideration of US\$2,500,000.

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## HISTORY AND REORGANIZATION

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The table below sets out the principal terms of the Pre-IPO Investments by Bright Journey and Eight Roads Ventures from 2010 to 2011:

<b>Name of Pre-IPO Investor</b>	<b>Bright Journey</b>	<b>Eight Roads Ventures</b>	<b>Eight Roads Ventures</b>
<b>Date of investment</b>	June 4, 2010	June 4, 2010	September 7, 2011
<b>Number of shares subscribed<sup>(1)</sup></b>	11,111,111 series A preferred shares	19,444,444 series A preferred shares	2,510,684 series A preferred shares
<b>The consideration paid</b>	US\$10,000,000	US\$17,500,000	US\$2,500,000
<b>Closing date</b>	July 1, 2011	July 1, 2011	September 7, 2011
<b>Cost per share paid by each Pre-IPO Investor</b>		US\$0.9000	US\$0.9957
<b>Discount to the Offer Price<sup>(1)(2)</sup></b>		81.16% <sup>(3)</sup>	79.16% <sup>(3)</sup>
<b>Basis of consideration</b>	Based on arm's length negotiations between the relevant parties after taking into consideration the timing of the investments and the status of our business and Operating Entities.		

*Notes:*

- (1) PnR Holdings will repurchase its preferred shares and ordinary shares held by the Pre-IPO Investors and the Management Company (except for two ordinary shares held by the Management Company), and PnR Holdings will transfer the same number of ordinary shares of our Company to the Pre-IPO Investors and the Management Company immediately prior to the completion of the Global Offering. See paragraph headed "—Our Reorganization" in this section for further details.
- (2) Calculated on the assumption that the price paid per share is adjusted for the dilutive effect of the Global Offering and the Offer Price is HK\$7.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$6.50 to HK\$8.50 per Offer Share.
- (3) All share capital of PnR Holdings (a) with a par value of US\$0.1 was subdivided by 100 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.001 each on September 7, 2011, and (b) was further subdivided by 5 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.0002 each on January 30, 2015. For illustration purposes, the discount here does not take into account the share subdivision mentioned in (a) above.

### Pre-IPO Investment from 2011 to 2014

On September 7, 2011, PnR Holdings, Eight Roads Ventures, Walden and Keytone, among others, entered into the Series B Preferred Share Purchase Agreement, pursuant to which Eight Roads Ventures, Walden and Keytone agreed to subscribe for 4,990,020, 6,653,360 and 23,286,760 series B preferred shares of PnR Holdings with a par value of US\$0.001 each<sup>(1)</sup>, respectively, at a price of US\$1.5030 per share with a consideration of US\$7,500,000, US\$10,000,000 and US\$35,000,000, respectively.

On September 7, 2011, PnR Holdings granted Eight Roads Ventures, Walden and Keytone warrants to subscribe for up to 499,002, 665,336 and 2,328,676 of its series B preferred shares, respectively, with a par value of US\$0.001 in the capital of PnR Holdings at US\$1.5030 per series B preferred share. Eight Roads Ventures, Walden and Keytone exercised the aforementioned warrant in full on December 27, 2013, January 22, 2014 and February 7, 2014 with a consideration of US\$750,000, US\$1,000,000 and US\$3,500,000, respectively.

<sup>(1)</sup> On September 7, 2011 and before this round of Pre-IPO Investment, PnR Holdings subdivided all its share capital on a 100:1 basis so that the par value of each issued and unissued share in the capital of PnR Holdings was changed to US\$0.001. PnR Holdings subsequently entered into certain arrangements with its shareholders on the even date, to the effect that the number of shares held by each of its shareholders remained unchanged and no money was paid by any party to another.

## HISTORY AND REORGANIZATION

The table below sets out the principal terms of the Pre-IPO Investment by Eight Roads Ventures, Walden and Keytone from 2011 to 2014:

Name of Pre-IPO Investor	Eight Roads Ventures	Walden	Keytone	Eight Roads Ventures	Walden	Keytone
<b>Date of investment</b>	September 7, 2011	September 7, 2011	September 7, 2011	December 27, 2013	January 22, 2014	February 7, 2014
<b>Number of shares subscribed<sup>(1)</sup></b>	4,990,020 series B preferred shares	6,653,360 series B preferred shares	23,286,760 series B preferred shares	499,002 series B preferred shares	665,336 series B preferred shares	2,328,676 series B preferred shares
<b>The consideration paid</b>	US\$7,500,000	US\$10,000,000	US\$35,000,000	US\$750,000	US\$1,000,000	US\$3,500,000
<b>Closing date</b>	October 31, 2012	October 31, 2012	December 19, 2013	December 27, 2013	January 22, 2014	February 7, 2014
<b>Cost per share paid by each Pre-IPO Investor</b>	US\$1.5030					
<b>Discount to the Offer Price<sup>(1)(2)</sup></b>	68.54% <sup>(3)</sup>					
<b>Basis of consideration</b>	Based on arm's length negotiations between the relevant parties after taking into consideration the timing of the investments and the status of our business and Operating Entities.					

*Note:*

- (1) PnR Holdings will repurchase its preferred shares and ordinary shares held by the Pre-IPO Investors and the Management Company (except for two ordinary shares held by the Management Company), and PnR Holdings will transfer the same number of ordinary shares of our Company to the Pre-IPO Investors and the Management Company immediately prior to the completion of the Global Offering. See paragraph headed "—Our Reorganization" in this section for further details.
- (2) Calculated on the assumption that the price paid per share is adjusted for the dilutive effect of the Global Offering and the Offer Price is HK\$7.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$6.50 to HK\$8.50 per Offer Share.
- (3) All share capital of PnR Holdings with a par value of US\$0.001 was subdivided by 5 so that the nominal value of each issued and unissued share in the capital of PnR Holdings became US\$0.0002 each on January 30, 2015.

### Pre-IPO Investments from 2015 to 2018

On April 14, 2015, PnR Holdings, Bain PnR, Trixen and Eight Roads Ventures, among others, entered into the Share Subscription and Purchase Agreement, pursuant to which, (i) Bain PnR agreed to subscribe for a total of 161,228,857 series C preferred shares and 15,800,000 ordinary shares of PnR Holdings with a par value of US\$0.0002 each at a price of US\$0.68226 per share with a total consideration of US\$120,779,708; and (ii) Bain PnR agreed to purchase 34,200,000 ordinary shares of PnR Holdings from Trixen and 11,663,763 series A preferred shares of PnR Holdings from Eight Roads Ventures with a consideration of US\$23,333,292 and US\$7,957,719, respectively.

On June 11, 2015, PnR Holdings granted Bain PnR two warrants, one of which was lapsed while the other was subsequently amended on January 30, 2018, pursuant to which PnR Holdings granted Bain PnR a warrant to subscribe for up to 7,523,539 of its series C preferred shares with a par value of US\$0.0002 in the capital of PnR Holdings with a consideration of US\$1,505. Bain PnR exercised the aforementioned warrant in full on January 30, 2018.

## HISTORY AND REORGANIZATION

The table below sets out the principal terms of the Pre-IPO Investments by Bain PnR from 2015 to 2018:

Name of Pre-IPO Investor	Bain PnR				
<b>Date of investment</b>	April 14, 2015			January 30, 2018	
<b>Number of shares subscribed/purchased<sup>(1)</sup></b>	161,228,857 series C preferred shares from PnR Holdings	15,800,000 ordinary shares from PnR Holdings	34,200,000 ordinary shares from Trixen	11,663,763 series A preferred shares from Eight Roads Ventures	7,523,539 series C preferred shares from PnR Holdings
<b>The consideration paid to PnR Holdings/Trixen/Eight Roads Ventures (as the case may be)</b>	US\$110,000,000	US\$10,779,708	US\$23,333,292	US\$7,957,719	US\$1,505
<b>Closing date</b>	June 11, 2015			January 30, 2018	
<b>Cost per Share paid by each Pre-IPO Investor</b>	US\$0.68226			US\$0.0002	
<b>Discount to the Offer Price<sup>(1)(2)</sup></b>	28.59%			99.98%	
<b>Basis of consideration</b>	Based on arm's length negotiations between the relevant parties after taking into consideration the timing of the investments and the status of our business and Operating Entities.				At par value

*Note:*

- (1) PnR Holdings will repurchase its preferred shares and ordinary shares held by the Pre-IPO Investors and the Management Company (except for two ordinary shares held by the Management Company), and PnR Holdings will transfer the same number of ordinary shares of our Company to the Pre-IPO Investors and the Management Company immediately prior to the completion of the Global Offering. See paragraph headed "—Our Reorganization" in this section for further details.
- (2) Calculated on the assumption that the price paid per share is adjusted for the dilutive effect of the Global Offering and the Offer Price is HK\$7.50 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$6.50 to HK\$8.50 per Offer Share.

### Use of Proceeds of and Strategic Benefit from Pre-IPO Investments

The funds raised from the Pre-IPO Investments were used for our working capital and general corporate purposes, technology research and development, marketing and sales, and general and administrative expenses. As of the Latest Practicable Date, all of the funds raised from the Pre-IPO Investments have been so utilized.

Venture capital and private equity funds like our shareholders Trixen, Bright Journey, Eight Roads Ventures, Walden, Keytone and Bain PnR, have expertise in emerging growth companies, particularly in Asia. In addition, we can also benefit from our shareholders' commitment to our Group as their investment demonstrates their confidence in its operations.

### Special Rights of the Pre-IPO Investors

In addition to the terms described above, the second amended and restated shareholders agreement (the "**Shareholders Agreement**") was entered into between, among others, PnR Holdings, the Management Company, Trixen, Bright Journey, Eight Roads Ventures, Walden, Keytone and Bain PnR



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## HISTORY AND REORGANIZATION

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on June 11, 2015, pursuant to which certain special rights were agreed among the shareholders of PnR Holdings.

The shareholder rights granted under the Shareholders Agreement will be automatically terminated when PnR Holdings repurchases its outstanding shares at the consideration of the corresponding ordinary shares of our Company it holds. No special rights granted to the Pre-IPO Investors will survive after completion of the Global Offering.

### **Lock-up and Public float**

The terms under the Pre-IPO Investments did not impose any lock-up obligations over the Shares to be held by any of the Pre-IPO Investors upon Listing. Certain Pre-IPO Investors have undertaken to be subject to lock-up obligations for a period ending on a date which is six months from the Listing Date. See “Underwritings—Undertakings by the Management Company and Certain Pre-IPO Investors of the Company.”

Upon completion of the Global Offering (assuming the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme are not exercised), Trixen, Eight Roads Ventures, Keytone and Bain PnR will hold in excess of 10% of our enlarged issued share capital, while the remaining Pre-IPO Investors will each hold less than 10% of our enlarged issued share capital. Therefore, save for the Shares held by Trixen, Eight Roads Ventures, Keytone and Bain PnR, the Shares held by the remaining Pre-IPO Investors will count towards the public float of our Company according to Rule 8.08 of the Listing Rules.

### **Information about the Pre-IPO Investors**

#### ***Trixen***

Trixen Enterprises Ltd., established under the laws of the British Virgin Islands, is an investment holding company and an affiliated company of the Sampoerna Group of companies, with a primary purpose of investing in the fintech sector. As of the Latest Practicable Date, Trixen holds 29.99% of our total issued and outstanding Shares.

#### ***Bright Journey***

Bright Journey Investment Limited is an investment holding company established under the laws of the British Virgin Islands on December 16, 2009, focusing on investments in companies in the Internet and mobile Internet industries. As of the Latest Practicable Date, Bright Journey holds 5.41% of our total issued and outstanding Shares.

#### ***Eight Roads Ventures***

Asia Ventures II L.P. is part of Eight Roads Ventures, the proprietary investment arm of Fidelity International Limited (FIL), which mainly focuses on investment in the healthcare, enterprise technology, financial technology and consumer technology sectors. As of the Latest Practicable Date, Eight Roads Ventures holds 12.24% of our total issued and outstanding Shares.

#### ***Walden***

Pacven Walden Ventures VI, L.P., Pacven Walden Ventures Parallel VI, L.P. and Pacven Walden Ventures Parallel VI-KT, L.P. are limited partnerships formed under the laws of the Cayman Islands. The general partner of Walden is Pacven Walden Management VI Co. Ltd. Walden engages in venture investments around the world focusing on cross-border investments. As of the Latest Practicable Date, Walden holds 3.57% of our total issued and outstanding Shares.

## HISTORY AND REORGANIZATION

### Keytone

Keytone Ventures, L.P. and Keytone Ventures II, L.P. are China focused venture capital funds registered in the Cayman Islands. Keytone invests in early and expansion stage companies in technology, media, consumer services and healthcare. As of the Latest Practicable Date, Keytone Ventures, L.P. and Keytone Ventures II, L.P. in combination hold 12.48% of our total issued and outstanding Shares.

### Bain PnR

Bain Capital PnR Cayman Limited is an exempted company with limited liability incorporated under the laws of the Cayman Islands. Bain Capital PnR Cayman Limited is wholly owned by Bain Capital PnR Holdings, L.P., whose general partner is Bain Capital Investors, LLC. As of the Latest Practicable Date, Bain PnR holds 22.45% of our total issued and outstanding Shares.

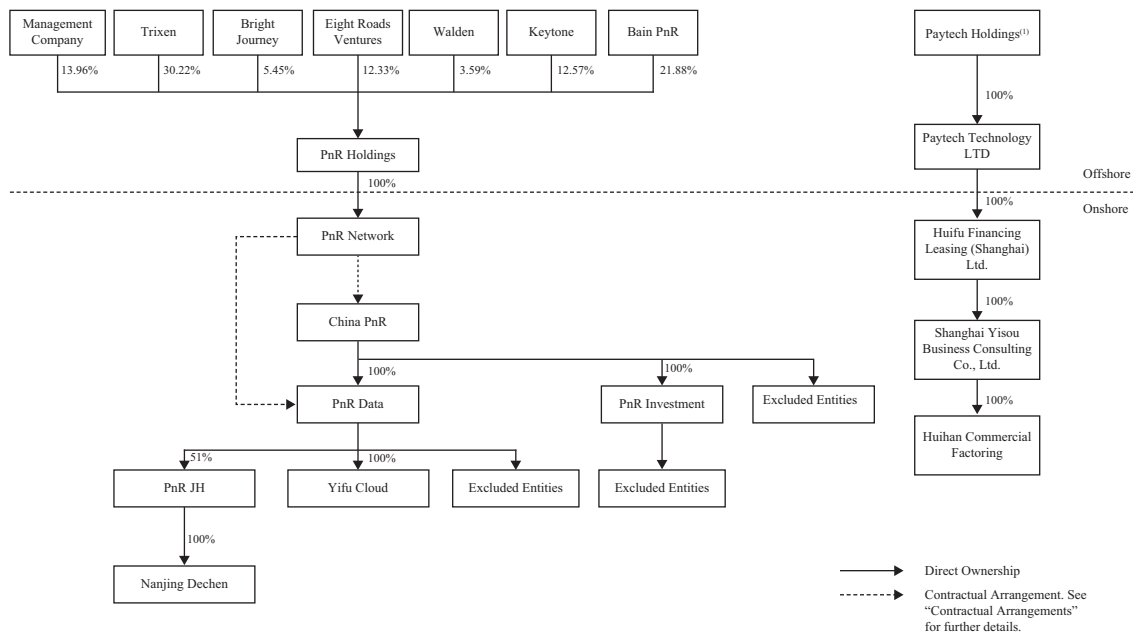
## COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

The Joint Sponsors have confirmed that the investments by the Pre-IPO Investors are in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12), the Guidance Letter on Pre-IPO Investments (HKEx-GL43-12) and the Guidance Letter on Pre-IPO Investments on Convertible Instruments (HKEx-GL44-12).

## OUR REORGANIZATION

In order to streamline our corporate structure and to focus on our core businesses, mainly the merchant payment services and fintech enabling services (the “**Core Businesses**”), we decided to conduct the Reorganization and to exclude those subsidiaries and operating entities conducting businesses other than the Core Businesses (the “**Excluded Entities**”) from our Group.

The simplified corporate chart below illustrates the shareholding and corporate structure of PnR Holdings and Paytech Holdings immediately prior to the Reorganization:



*Note:*

(1) Prior to the Reorganization, Paytech Holdings was owned by China PnR Holdings Limited as to 71.19%, Keytone Ventures II, L.P. as to 11.01%, Xiaodi Technology Limited as to 1.78%, Adax Technology Limited as to 1.78%, DanYa Technology Limited as to 1.78% and

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## HISTORY AND REORGANIZATION

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Scube Technology as to 12.46%. China PnR Holdings is in turn owned by Trixen as to 39.89%, the Management Company as to 18.43%, Asia Venture II L.P. as to 16.00%, Bright Journey Investment Limited as to 6.48%, Pacven Walden Ventures VI, L.P. as to 3.90%, Pacven Walden Venture Parallel VI, L.P. as to 0.33%, Pacven Walden Ventures Parallel VI-KT, L.P. as to 0.04%, Keytone Ventures II, L.P. as to 12.80% and Keytone Ventures, L.P. as to 2.13%. Scube Technology is owned by Mr. JIN Yuan, our executive Director, as to 33.33%, Mr. XIAO Chengjian as to 33.33% and Mr. HAN Shenyao as to 33.34% while Xiaodi Technology Limited, Adax Technology Limited and DanYa Technology Limited are wholly-owned by Mr. HAN Shenyao, Mr. XIAO Chengjian and Mr. JIN Yuan, respectively. Mr. XIAO Chengjian and Mr. HAN Shenyao are Independent Third Parties. As of the Latest Practicable Date, Paytech Holdings has transferred all of its shareholding of Paytech Technology Limited to PnR (Cayman).

Below are the key steps taken by us for the Reorganization.

### Step 1: Incorporation of our Company

On December 21, 2017, we were incorporated in the Cayman Islands as an exempted company and wholly-owned subsidiary of PnR Holdings.

- Upon the incorporation, our Company issued one ordinary share with a par value of HK\$0.0001 to Vistra (Cayman) Limited in exchange for HK\$0.0001, and Vistra (Cayman) Limited subsequently transferred the share to PnR Holdings on the same date at the same price.
- On December 25, 2017, our Company issued an additional one ordinary share with a par value of HK\$0.0001 to PnR Holdings in exchange for its 100% equity interest of PnR Network. As a result, PnR Network became the wholly-owned subsidiary of our Company.

### Step 2: Exclusion of Excluded Entities

On December 21, 2017, PnR (Cayman) was incorporated in the Cayman Islands as an exempted company by Vistra (Cayman) Limited and subsequently was transferred to the Management Company and became a wholly-owned subsidiary of the Management Company. Subsequently, PnR (Cayman) set up PnR (BVI) Ltd. (“**PnR (BVI)**”) as its wholly-owned subsidiary under the laws of the British Virgin Islands and PnR (BVI) set up PnR (Hong Kong) Limited (“**PnR (HK)**”) as its wholly-owned subsidiary under the laws of Hong Kong. PnR (HK) is setting up PnR (China) Co., Ltd. (“**New WFOE**”) as its wholly-owned foreign enterprise in the PRC.

PnR Holdings set up three subsidiaries under the laws of the British Virgin Islands (“**BVI Fund Subsidiaries**”) and injected all the funds it received from its onshore subsidiaries/operating entities through a series of internal financing arrangements and guarantee-secured loans into the BVI Fund Subsidiaries. PnR Holdings subsequently made three rounds of dividends distribution to the Pre-IPO Investors in specie of all the ordinary shares in the BVI Fund Subsidiaries, and the Pre-IPO Investors subscribed for the corresponding series of preferred shares and ordinary shares issued by PnR (Cayman), in the same proportion as each Pre-IPO Investor then held in PnR Holdings, with all of the dividends they respectively received from PnR Holdings. As a result, PnR (Cayman)’s share structure substantially mirrored that of PnR Holdings. Through a series of arrangement of internal financing pool, BVI Fund Subsidiaries transferred part of the funds as mentioned above to certain domestic entities of PnR (Cayman) for the purpose of acquiring certain Excluded Entities from our Group (as further illustrated below) and settling the outstanding indebtedness owed by certain entity of the Excluded Group to our Group incurred in the ordinary course of business prior to the Reorganization.

In November 2017, China PnR and PnR Data, respectively, entered into several equity transfer agreements with PnR Investment, pursuant to which China PnR and PnR Data transferred all of their

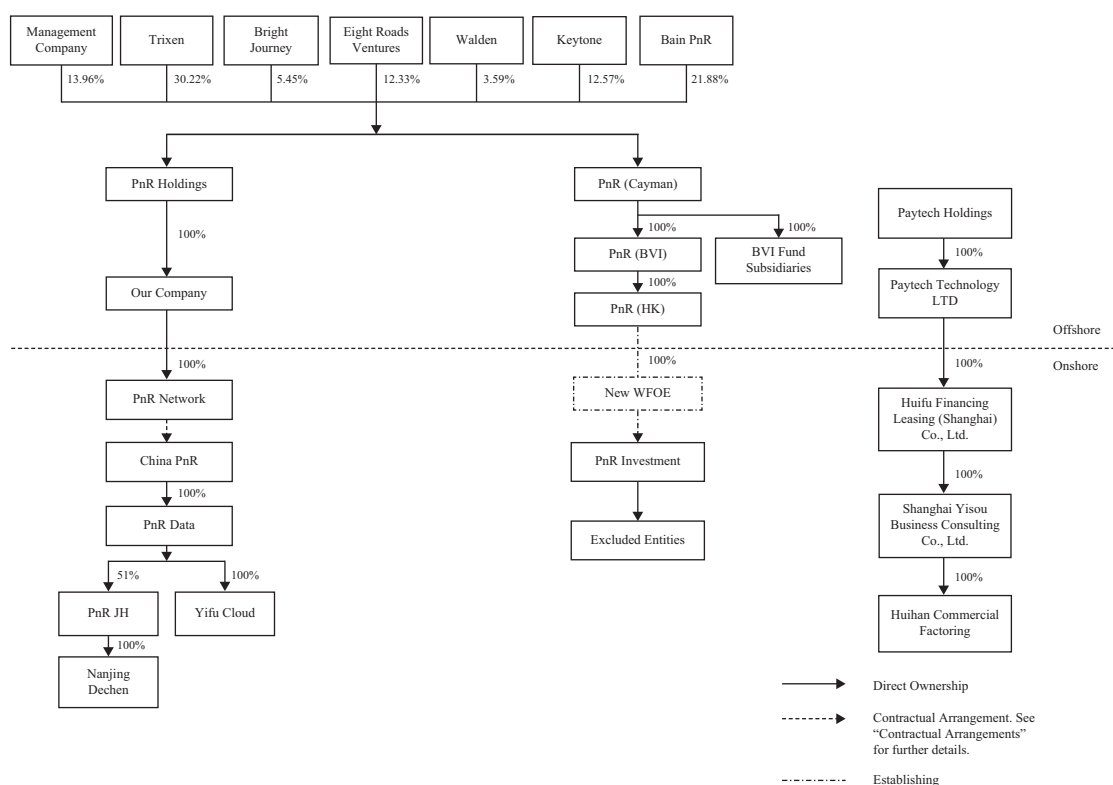
## HISTORY AND REORGANIZATION

respective equity interests (ranging from 16.29% to 100%) in certain Excluded Entities to PnR Investment for a consideration of approximately RMB105.8 million in total, which was determined by reference to the respective investment cost or net assets value of the Excluded Entities, or at nominal consideration, as the case may be.

On November 30, 2017, China PnR entered into an equity transfer agreement with its registered shareholders, i.e., the Management, pursuant to which China PnR transferred its 100% equity interests in PnR Investment to the Management for a consideration of approximately RMB31.6 million. The consideration was determined based on the net asset value. New WFOE will, upon establishment, enter into a series of contractual arrangements with PnR Investment, after which PnR Investment will become the operating entity of New WFOE.

After completion of the steps above, all of our equity interests in and contractual arrangements with the Excluded Entities were excluded from our Group and a total of approximately US\$61.5 million was transferred from our Group to the Excluded Entities for the purpose of their ordinary business management.

The following chart sets out the shareholding and corporate structure of our Group, PnR (Cayman) and Paytech Holdings, immediately after completion of the above steps:



### Step 3: Restructuring of PnR Data and inclusion of Huihan Commercial Factoring

PnR Data was established in the PRC on April 28, 2007 mainly to conduct third-party payment related businesses, while its two subsidiaries, PnR JH and Yifu Cloud, engage in businesses which are not subject to any foreign investment restrictions under applicable PRC laws.

For the purpose of ensuring that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, PnR Data entered into equity transfer

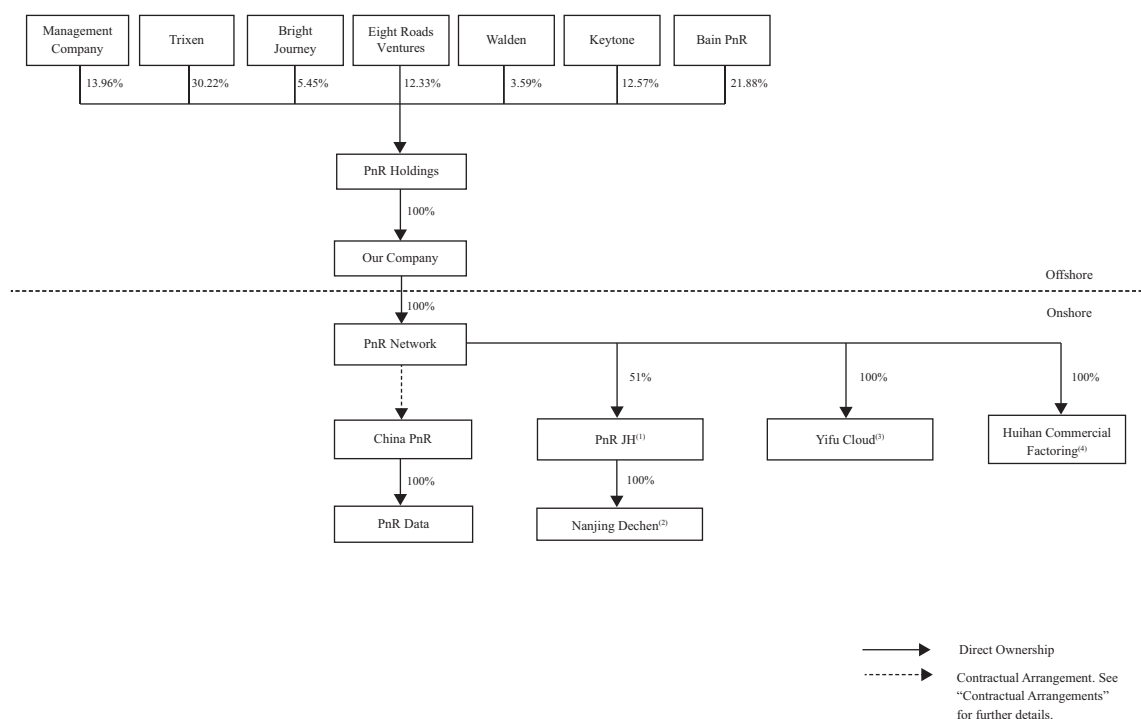
## HISTORY AND REORGANIZATION

agreements with PnR Network pursuant to which PnR Data transferred all of its equity interests in PnR JH and Yifu Cloud to PnR Network:

- On November 30, 2017, PnR Data transferred its 51% equity interest in PnR JH to PnR Network for a consideration of RMB6.94 million, which was determined by reference to PnR JH’s net asset value.
- On November 30, 2017, PnR Data transferred its 100% equity interest in Yifu Cloud and relevant obligations of equity contribution to PnR Network at a nominal consideration of RMB1.

On December 20, 2017, PnR Network entered into an equity transfer agreement with Shanghai Yisou Business Consulting Co., Ltd. (“**Shanghai Yisou**”), an indirect wholly-owned subsidiary of Paytech Holdings, pursuant to which Shanghai Yisou transferred its 100% equity interest in Huihan Commercial Factoring and relevant obligation of equity contribution to PnR Network at nil consideration. The change of registration with the relevant administration for industry and commerce was completed on April 24, 2018.

The following chart sets out the simplified shareholding and corporate structure of our Group immediately after the Restructuring of PnR Data:



*Notes:*

- (1) PnR JH is engaged in providing technical supporting services and solutions in cross-border transactions.
- (2) Nanjing Decheng is engaged in the development of information technology systems.
- (3) Yifu Cloud is engaged in providing technical support to our multi-payment channel solution.
- (4) Huihan Commercial Factoring is engaged in providing relevant value-added services, including commercial factoring, as part of our solutions to various industry verticals.

### Step 4: Reorganization of the Offshore Holding Structure

Pursuant to the restructuring framework agreement entered into on December 21, 2017 between, among others, our Company, PnR Holdings, the Management Company and the Pre-IPO

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## HISTORY AND REORGANIZATION

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Investors, the shareholding structure of our Company will be simplified such that the Management Company and the Pre-IPO Investors will hold the Shares directly in our Company rather than indirectly through PnR Holdings after the completion of the Global Offering.

On January 29, 2018, our Company issued 1,026,199,359 ordinary shares with a par value of HK\$0.0001 each to PnR Holdings for a consideration of US\$4,500,000. As of the Latest Practicable Date, our Company had an authorized share capital of HK\$380,000 divided into 3,800,000,000 shares of a par value of HK\$0.0001 each. Immediately prior to the completion of the Global Offering:

- PnR Holdings will repurchase (i) all of its preferred shares and its ordinary shares held by the Pre-IPO Investors, and (ii) 142,199,998 ordinary shares held by the Management Company.
- In consideration for the repurchase, PnR Holdings will transfer the same number of ordinary shares it held in our Company to the Management Company and Pre-IPO Investors.
- Pre-IPO share option schemes adopted by PnR Holdings will be terminated and the Pre-IPO Share Option Scheme adopted by our Company will become effective. See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme” for further details of the Pre-IPO Share Option Scheme.

Upon completion of the above key steps, each of the Management Company and Pre-IPO Investors will directly or indirectly hold a number of ordinary shares in our Company that are the same as they respectively held in PnR Holdings on a fully diluted basis.

Our PRC Legal Advisors are of the view that the share transfers and reorganizations as described in “—Our Reorganization” in this section, in respect of the companies in our Group, which are incorporated in the PRC, have been properly and legally completed and all regulatory approvals have been obtained in accordance with PRC laws and regulations.

### **PRE-IPO SHARE OPTION SCHEME**

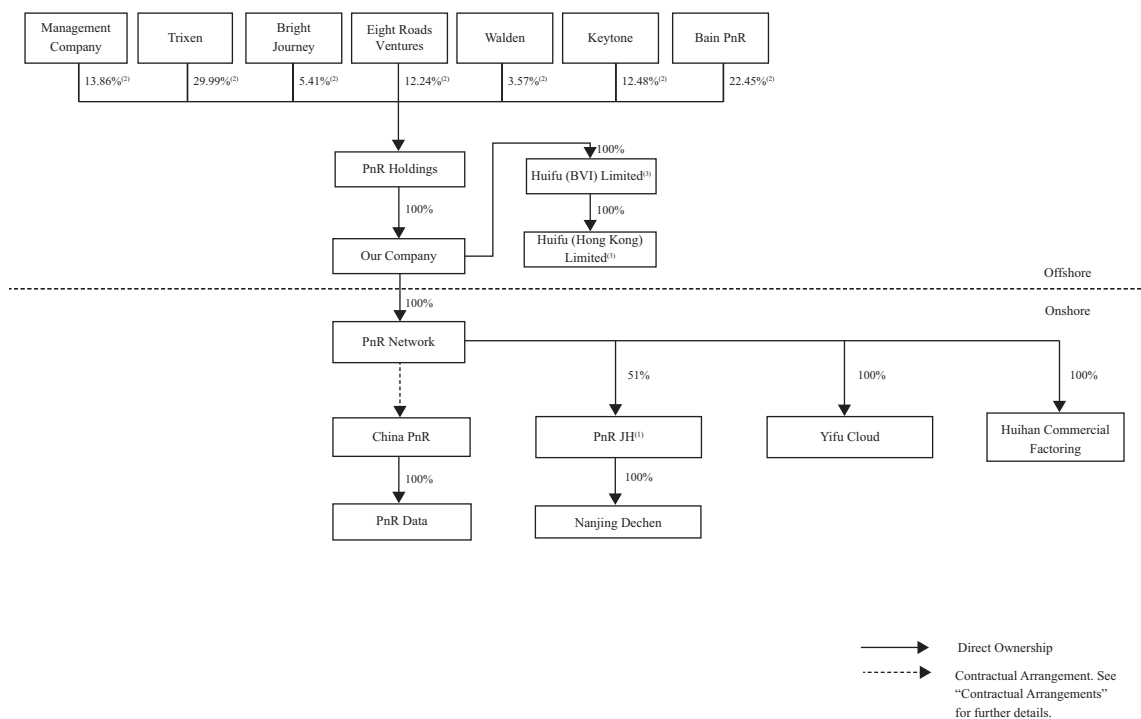
In order to incentivize our Directors, senior management, connected persons and other grantees for their contribution to our Group and to attract and retain suitable personnel to our Group, we adopted the Pre-IPO Share Option Scheme. See the section headed “Statutory and General Information—D. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus for further details.

## HISTORY AND REORGANIZATION

### CORPORATE STRUCTURE

#### Shareholding and group structure of our Group as of the Latest Practicable Date

The following chart sets out the shareholding and corporate structure of our Group as of the Latest Practicable Date:



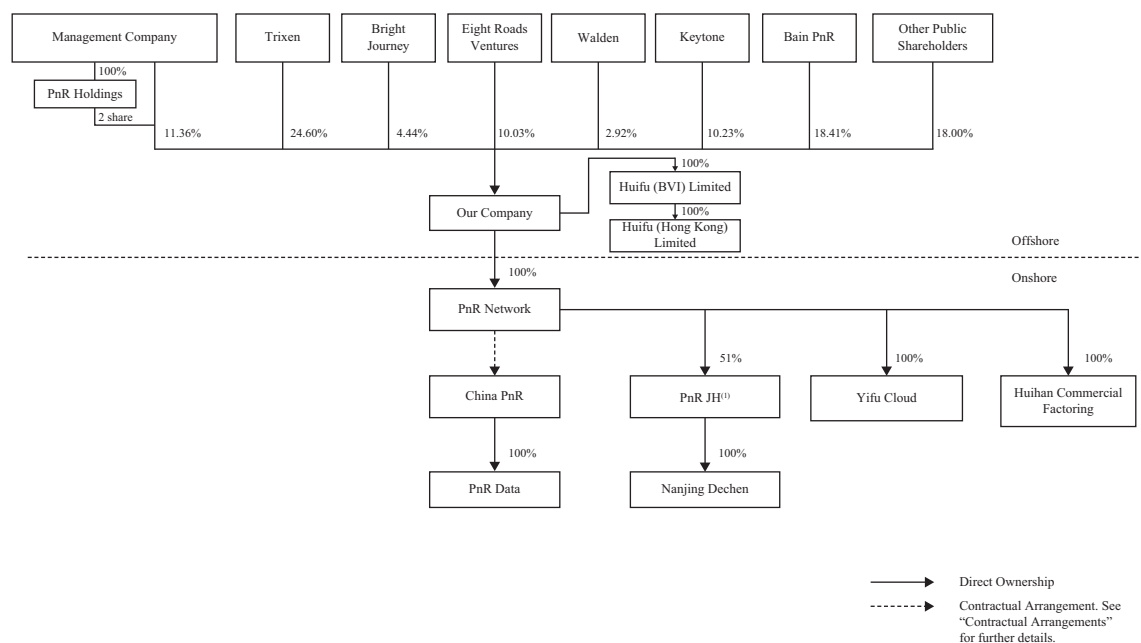
*Note:*

- (1) As of the Latest Practicable Date, the remaining shares of PnR JH were held by Shanghai Huifu Internet Financial Information Venture Capital Investment Center (Limited Partnership) (上海匯付互聯網金融信息服務創業投資中心(有限合夥)) ("Huifu FinTech") as to 19%, Nanjing Guchen Software Technology Service Center (Limited Partnership) as to 3.75%, Mr. ZHOU Jun as to 5%, Mr. WANG Xiuhong as to 5% and Mr. QIU Sheng as to 16.25%. Except that Mr. ZHOU Jun is acting as the general manager and Mr. QIU Sheng is acting as a deputy general manager of PnR JH, Huifu FinTech is managed by Shanghai Huifu Langcheng Venture Capital Management Company Limited (上海匯付朗程創業投資管理有限公司), a company owned by PnR Investment as to 40%, Mr. ZHOU Ye as to 20% and other Independent Third Parties as to 40%, and Nanjing Guchen Software Technology Service Center (Limited Partnership) is managed by Mr. QIU Sheng, all other shareholders of PnR JH mentioned above are employees of PnR JH.
- (2) The shareholding change is due to the exercise of Bain PnR's warrant on January 30, 2018. See "—Material Shareholding Change and Pre-IPO Investments—Pre-IPO Investments from 2015 to 2018" in this section for further details. Bain PnR also subscribed a corresponding number of PnR (Cayman)'s shares on May 10, 2018, to the effect that PnR (Cayman)'s share structure still substantially mirrored that of PnR Holdings as set forth in the structure chart above.
- (3) In order to establish and accumulate overseas operation experiences in telecommunications business operations as further elaborated in section headed "Contractual Arrangement—Qualification Requirements under the FITE Regulation", our Company established Huifu (BVI) Limited as our wholly-owned subsidiary under the laws of the British Virgin Islands on April 24, 2018, and Huifu (BVI) Limited subsequently established Huifu (Hong Kong) Limited as its wholly-owned subsidiary under the laws of Hong Kong on May 16, 2018.

## HISTORY AND REORGANIZATION

### Shareholding and group structure of our Group immediately following the Global Offering

The following chart sets forth the shareholding and corporate structure of our Group immediately following completion of the Global Offering (assuming that the Over-allotment Option has not been exercised and without taking into account of Shares which may be issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Scheme):



*Note:*

- (1) As of the Latest Practicable Date, the remaining shares of PnR JH were held by Huiifu FinTech as to 19%, Nanjing Guchen Software Technology Service Center (Limited Partnership) as to 3.75%, Mr. ZHOU Jun as to 5%, Mr. WANG Xiuhong as to 5% and Mr. QIU Sheng as to 16.25%. Except that Mr. ZHOU Jun is acting as the general manager and Mr. QIU Sheng is acting as a deputy general manager of PnR JH, Huiifu FinTech is managed by Shanghai Huiifu Langcheng Venture Capital Management Company Limited (上海匯付朗程創業投資管理有限公司), a company owned by PnR Investment as to 40%, Mr. ZHOU Ye as to 20% and other Independent Third Parties as to 40% and Nanjing Guchen Software Technology Service Center (Limited Partnership) is managed by Mr. QIU Sheng, all other shareholders of PnR JH mentioned above are employees of PnR JH.

## RELATIONSHIP BETWEEN THE EXCLUDED GROUP AND OUR GROUP

### Delineation of Business and Non-Competition

As the result of the Reorganization, our Group is mainly engaged in merchant payment services and fintech enabling services, while the Excluded Group mainly engages in (1) wealth management and sales of fund products, providing qualified investors with financial products and fund referral services, and charging commissions as a percentage of sales volume; (2) loan services, providing individuals as well as micro and small merchants with customized loan products and loan guarantee services and collecting interest and service fees from the borrowers by leveraging the Excluded Group's risk control system and sales channel; and (3) venture capital investment, primarily in start-up companies in the Internet finance sector for synergy creation and capital appreciation. In respect of our Company's loan referral service on Loan Marketplace disclosed in "Business—Our Businesses—Fintech Enabling Services—Data-driven value-added services", instead of providing loans and services to, and collecting interest and services fees from, borrowers, we introduce reliable micro and small merchants to reputable lending platforms and charge commission fees from the finance providers. As such, businesses carried on by our Group and by the Excluded Group are clearly delineated from each other.



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## HISTORY AND REORGANIZATION

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The Directors are of the view that there is a clear delineation between the businesses operated by our Group and those operated by the Excluded Group. Each of PnR (Cayman) and Paytech Holdings, as the holding companies of the Excluded Group, has confirmed that neither it nor any member of its subsidiaries or operating entities has any interest, whether directly or indirectly, in a business which competes with, or is likely to compete with, our Group and our Directors do not hold any competing interests provided under Rule 8.10(2) of the Listing Rules.

### **Non-competition Undertaking**

As a result of the Reorganization, the shareholding structure of PnR (Cayman) will substantially mirror that of our Group. The shareholding structure of Paytech Holdings will also be similar to that of our Group. While our Directors consider that there is a clear delineation between the business of our Group and Excluded Entities, each of PnR (Cayman) and Paytech Holdings has provided a non-competition undertaking on May 20, 2018 in favor of our Group (the “**Non-competition Undertaking**”), pursuant to which, each of PnR (Cayman) and Paytech Holdings has irrevocably undertaken, among other things, that:

- (i) each of PnR (Cayman) and Paytech Holdings will not and will procure that the Excluded Group would not, directly or indirectly, whether as principal or agent, either on their own account or in conjunction with or on behalf of any person, firm or company, whether inside or outside the PRC, among other things, 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 or may be in competition with the business of any member of our Group from time to time (the “**Restricted Business**”);

The undertaking set out in item (i) above does not apply where:

- (1) any member of the Excluded Group holds any interests in the shares of any member of our Group or conducts business on behalf of any member of our Group;
- (2) any member of the Excluded Group holds, directly or indirectly, any equity interests in any companies listed on an accepted stock exchange other than our Group, and such companies are engaged in the Restricted Business;
- (3) any member of the Excluded Group holds any equity interests in any company other than our Group, provided that:
  - a. according to the latest audited accounts of the company, the Restricted Business in which the company is engaged (and its related assets) accounts for less than 10% of the consolidated sales or consolidated assets of the company; and
  - b. the total number of shares held by any member of the Excluded Group account for no more than 5% of the shares of the same class issued by the relevant company, and such Excluded Entity has no right to appoint most of the directors of the company;
- (4) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available by any member of the Excluded Group to us, and after decision by the Company, has been declined in writing or failure to respond within thirty (30) working days (the notification period could be extended to sixty (60) working days if requested by us) after being notified of such opportunity to invest, participate, be engaged in or operate the Restricted Business.

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- (ii) if PnR (Cayman), Paytech Holdings and/or any member of the Excluded Group become aware of, have received notice of, are recommended or provided with new business opportunities which will or may directly or indirectly compete with the Restricted Business, including but not limited to the opportunities which are the same as or similar to the Restricted Business (the “**New Business Opportunities**”), PnR (Cayman) and Paytech Holdings shall refer or recommend, and shall procure any member of the Excluded Group to refer or recommend, the New Business Opportunities to our Group subject to relevant laws, requirements or contractual arrangements with third parties pursuant to the Non-competition Undertaking;
- (iii) if PnR (Cayman), Paytech Holdings and/or members of the Excluded Group intend to transfer, sell, lease or license concession to a third party any businesses engaged in by PnR (Cayman), Paytech Holdings and/or the Excluded Group, which competes or may compete with the Restricted Business or any other businesses which would cause direct or indirect competition with the Restricted Business, PnR (Cayman), Paytech Holdings and/or members of the Excluded Group shall offer our Group such opportunity with a pre-emptive right on equal terms subject to the relevant laws, regulations and contractual arrangements with third parties. For the avoidance of doubt, the terms of disposal offered by PnR (Cayman), Paytech Holdings and/or members of the Excluded Group to any third parties shall not be more favorable than those to be offered to the Company pursuant to the Non-competition Undertaking;
- (iv) to the extent that no relevant laws and regulations are breached and agreements with third parties are complied with, the Company is entitled to acquire any businesses operated by PnR (Cayman), Paytech Holdings and/or members of the Excluded Group which compete or may compete with the Restricted Business, or have the option to acquire any businesses or any interests engaged in PnR (Cayman), Paytech Holdings and/or members of the Excluded Group through the abovementioned New Business Opportunities (the “**Option for Purchase**”). The Company is entitled to exercise the Option for Purchase, whether singly or separately, at any time, and PnR (Cayman), Paytech Holdings and/or members of the Excluded Group shall offer the Option for Purchase to the Company on the condition that the commercial terms of a proposed acquisition shall be arrived at solely by a committee consisting of our independent non-executive Directors after consulting the views of independent experts. Furthermore, such commercial terms shall be based on negotiation between the parties involved in line with the normal commercial practice of the Company, and shall be fair, reasonable and in the interests of the Company as a whole through the negotiation with PnR (Cayman), Paytech Holdings and/or members of the Excluded Group. However, if a third party has the pre-emptive right in accordance with applicable laws and regulations and/or a prior legally binding document (including, but not limited to, articles of association and/or shareholders’ agreements), the Company’s Option for Purchase shall be subject to such third-party rights. In such case, PnR (Cayman), Paytech Holdings and/or members of the Excluded Group will use their best efforts to persuade the third party to waive its pre-emptive rights.

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Each of PnR (Cayman) and Paytech Holdings has further undertaken that, subject to relevant laws, regulations or any existing contractual arrangements with third parties as of the date of its undertaking below:

- (i) at the request of the Group, it shall provide, and shall procure that the Excluded Group will provide, any necessary information for the implementation of the Non-competition Undertaking;
- (ii) PnR (Cayman), Paytech Holdings and/or members of the Excluded Group shall allow the authorized representatives or auditors of the Group to have reasonable access to the financial and corporate information necessary to its transactions with third parties, which would assist with the judgment of the Group in respect of whether PnR (Cayman), Paytech Holdings and/or members of the Excluded Group have complied with the Non-competition Undertaking; and
- (iii) PnR (Cayman), Paytech Holdings and/or members of the Excluded Group shall ensure that, within ten (10) working days of receipt of the written request from the Group, necessary confirmation shall be made in writing to the Group as to the performance of the Non-competition Undertaking by PnR (Cayman), Paytech Holdings and/or members of the Excluded Group, and the consent of PnR (Cayman), Paytech Holdings and/or members of the Excluded Group to allow such confirmation to be included in the our annual reports.

The Non-competition Undertaking shall remain effective and would only cease to have effect upon the earlier of: (i) the Shares of our Company ceasing to be listed on the Stock Exchange; and (ii) our Group no longer holding, directly or indirectly, the shares of any member of the Group which is engaged in the Restricted Business.

### **Corporate Governance Measures**

To further protect the interests of our Company and our Shareholders as a whole, our Company will adopt the following corporate governance measures to manage any potential conflicts of interest:

- (i) our Company's independent non-executive Directors will review, on an annual basis, the compliance with the Non-competition Undertaking by PnR (Cayman), Paytech Holdings and/or members of the Excluded Group;
- (ii) each of PnR (Cayman) and Paytech Holdings undertakes to provide, and to procure members of the Excluded Group to provide, all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Undertaking. Unless invited by a majority of the independent non-executive Directors, executive Directors and senior management shall exclude themselves from any meeting convened to consider any issues arising under the Non-competition Undertaking. Our independent non-executive Directors may engage professional advisors at our Company's cost for advice on matters relating to the Non-competition Undertaking;
- (iii) our Company will disclose in the "corporate governance report" section of our subsequent annual reports how the Non-competition Undertaking has been complied with;
- (iv) our Company will disclose in the subsequent annual reports the decisions on matters reviewed by the independent non-executive Directors relating to compliance with the Non-competition Undertaking by PnR (Cayman), Paytech Holdings and/or members of the Excluded Group; and

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- (v) our Company will disclose in the subsequent annual reports the annual statement on compliance with the Non-competition Undertaking made by PnR (Cayman), Paytech Holdings and/or members of the Excluded Group.

Further, any transaction that is proposed between our Group and PnR (Cayman), Paytech Holdings and/or members of the Excluded Group will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

### Independence Operation

Having considered the following factors, the Directors believe that we can conduct our business independently from PnR (Cayman), Paytech Holdings and members of the Excluded Group after the completion of the Global Offering.

#### (1) Management Independence

The Board of our Company consists of nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors, of which five Directors also hold and will continue to hold positions in PnR Holdings, PnR (Cayman), Paytech Holdings and/or members of the Excluded Group after the Listing:

<u>Name</u>	<u>Position within our Group</u>	<u>Positions within PnR Holdings, PnR (Cayman), Paytech Holdings and/or Excluded Entities</u>
Mr. ZHOU Ye (周擘)	Chairman of the Board, executive Director and Chief Executive Officer of our Company; Director and general manager of PnR Network; Director and chief executive officer of China PnR; and Director of PnR Data	Non-executive Director of PnR Holdings; Non-executive Director of PnR (Cayman); Non-executive Director of Paytech Holdings; and Non-executive Director of 14 members of the Excluded Group
Ms. MU Haijie (穆海潔)	Executive Director and President of our Company; Director of PnR Network and three of its subsidiaries; Director and president of China PnR; and Director and general manager of PnR Data	Non-executive Director of PnR Holdings; Non-executive Director of PnR (Cayman); Non-executive Director of Paytech Holdings; and Non-executive Director of four members of the Excluded Group
Mr. CHYE Chia Chow (蔡佳釗)	Non-executive Director of our Company	Non-executive Director of PnR Holdings; and Non-executive Director of PnR (Cayman)
Mr. ZHOU Joe	Non-executive Director of our Company	Non-executive Director of PnR Holdings; Non-executive Director of PnR (Cayman); and Non-executive Director of Paytech Holdings
Mr. CHEN Zhongjue (陳中崛)	Non-executive Director of our Company	Non-executive Director of PnR Holdings; and Non-executive Director of PnR (Cayman)

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The three non-executive Directors (Mr. CHYE Chia Chow, Mr. ZHOU Joe and Mr. CHEN Zhongjue) are not involved in the daily business operations and management of our Group. They are primarily responsible for making decisions on matters such as formulation of our general development strategy and corporate operation strategy as members of the Board. The daily business operations and management of our Group are managed by the executive Directors and senior management team who have substantial experience to ensure the proper functioning of the daily operation and management of our Group.

Of the three executive Directors, two executive Directors, (Mr. ZHOU Ye and Ms. MU Haijie) also held several positions as limited partner and/or non-executive director in PnR Holdings, PnR (Cayman) and the Excluded Group. Neither of them has participated nor will participate in the daily business operations and management of the Excluded Group (as the case may be). They are primarily responsible for making decisions on matters regarding development and corporate operation strategy as members of partnership and/or the Board of Directors. Therefore, neither of them expects that their respective positions in PnR Holdings and the Excluded Group (as the case may be) will take up a substantial amount of their respective time. They will be able to devote sufficient time to the management of our Company.

Save as disclosed above, none of the Directors or members of senior management of our Company holds any position in the Excluded Group.

### **(2) Operational Independence**

Currently, our Company is in possession of all production and operating facilities and technology relating to our Group's business. Our Company makes and implements operational decisions independently of the Excluded Group. Our Company has its own organizational structure with independent departments, each with specific areas of responsibility. Our Company also maintains a set of comprehensive internal control measures to facilitate the effective operation of our business. Our Company has independent access to customers and is not dependent on the Excluded Group with respect to suppliers for our business operations. Our Company has its own employees to operate the business and can independently manage its human resources. We have obtained relevant licenses, approvals and permits from the relevant regulatory authorities which are material to our operations in the PRC.

We entered into several continuing connected transactions with PnR (Cayman), Paytech Holdings and the Excluded Group in relation to IP licensing, property leasing and services provision and purchase, including the IP License Framework Agreement, the Property Leasing Framework Agreement and the Business Collaboration and Services Framework Agreement. For more details, see "Connected Transactions". As such transactions were entered into on a non-exclusive basis and do not take up substantial proportions of our total revenue, our Directors consider that, even if such agreements are terminated, our Company will be able to identify other suitable partners through fair consultation on terms and conditions in line with the market terms to meet our business and operational needs without causing any undue delay.

### **(3) Financial Independence**

Our Company has established its own finance department with a team of independent financial staff responsible for discharging treasury, accounting, reporting, group credit and internal control

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functions independent from the Excluded Group, as well as a sound and independent financial system, and makes independent financial decisions according to our own business needs. We have sufficient capital, cash and cash equivalent and bank facilities and credit to operate our business independently, and have sufficient internal resources to support our day-to-day operations.

For the purpose of the Reorganization, Paytech Tech has provided a guarantee in favor of our Company with a total amount of US\$18,400,000 (which will be settled upon completion of the Global Offering when part of the proceeds from the Global Offering will be repaid to the relevant commercial banks as the lender). Except for the above, as of the Latest Practicable Date, all amounts of a non-trade nature and guarantees between the Excluded Group and us have been settled and/or released.

### PRC REGULATORY REQUIREMENTS

#### M&A Rules

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (4) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares or equity interest in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisors are of the opinion that prior CSRC approval for this offering is not required because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this prospectus are subject to the M&A Rules; (ii) PnR Network is not established through mergers or acquisitions of domestic companies owned by PRC companies or individuals as defined under the M&A Rules, and (iii) that no provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented, and whether the relevant PRC government authorities will reach the same conclusion as our PRC Legal Advisors.

#### SAFE Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”), promulgated by the SAFE and which became effective on July 4, 2014,

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and which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”), (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas 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 Overseas SPV, including, among other things, a change of the Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

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

As advised by our PRC Legal Advisors, our individual Shareholders who are PRC residents as defined under SAFE Circular 37 or SAFE Circular 75 have completed their registration under SAFE Circular 75 on September 11, 2006, which is in compliance with SAFE Circular 37 and SAFE Circular 75.

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### OVERVIEW

We are a leading independent third-party payment service provider in China, focusing on merchant payment and fintech enabling services.

According to Frost & Sullivan, in terms of payment volumes processed in 2017, we ranked:

- first among independent third-party payment service providers (those not owned or controlled by financial institutions or corporate groups, such as large ecommerce platforms) in the market segment for micro and small merchants in China, with a market share of 5.5%;
- third among independent third-party payment service providers in China, with a market share of 7.7%; and
- seventh among all third-party payment service providers in China, with a market share of 2.0%.

Leveraging our industry-leading expertise in payments and related financial technologies, we have also been developing and commercializing a growing range of fintech enabling services.

Our principal business lines are:

- **Merchant Payment Services:** We provide various merchant payment services to millions of micro and small merchants as well as companies in select industry verticals. Our solutions enable clients to offer their customers a seamless, convenient and safe way to pay regardless of whether such payments are made in-store, online, or on-the-go.

Our merchant payment services are divided into five types, consisting of POS, Internet payment, mobile POS, mobile payment and cross-border payment services. Our POS services involve providing POS terminals and software to enable merchants to accept payments from bank cards through the UnionPay clearing network. Our Internet payment services enable merchants to receive payments on the Internet which are normally executed on a computer, and are primarily provided to industry verticals in our customized industry-specific solutions. Our mobile POS services utilize various communication methods, such as Bluetooth, near field communication and QR codes, which enable wireless data transfers between devices whereby a payment is processed through our proprietary mobile app and mobile POS accessory. Our mobile payment services enable payers to make payments using their mobile devices which are then processed through a third-party mobile app connecting to our services. Our cross-border payment services process payments for cross-border transactions, primarily for cross-border ecommerce platforms.

- **Fintech Enabling Services:** Building on our strong payment technological capability, we also provide fintech enabling services to Internet finance providers and commercial banks which empower them to improve their information visibility, operation efficiency and data security, and enable them to offer more flexibility and convenience when serving their customers. Our services include SaaS offerings, such as account management services and data-driven value-added services.

In 2015, 2016 and 2017, we generated revenue of RMB555.7 million, RMB1,094.8 million and RMB1,726.3 million, respectively; and had a net loss of RMB7.6 million in 2015 and a net profit of RMB118.7 million in 2016 and RMB132.8 million in 2017. For the same periods, our revenue generated from merchant payment services accounted for 86.2%, 92.4% and 94.0% of our total



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revenue, respectively, and our revenue generated from fintech enabling services accounted for 13.4%, 6.4% and 5.8% of our total revenue, respectively.

### **OUR COMPETITIVE STRENGTHS**

We believe the following competitive advantages have positioned us favorably in the PRC third-party payments industry and will help drive our growth in the future.

#### **Pioneer in the PRC third-party payments industry**

Innovations in payment technology and global ecommerce in recent years are driving the rapid growth of the PRC third-party payments industry. According to Frost & Sullivan, we remain at the forefront of the industry, as evidenced by many of our notable industry “firsts” including the following:

- in 2007, we launched the first customized payment solution for the airline ticketing industry by connecting airlines, ticketing agencies and customers, thereby significantly improving settlement efficiency;
- in 2010, we were the first third-party payment service provider to be authorized by the CSRC to offer payment and settlement services for fund sales;
- in 2011, we were among the first companies to obtain the payment license from the PBOC;
- in 2012, we were the first to build an ISO network for the distribution of POS services, reaching millions of micro and small merchants across China in a cost-effective manner;
- in 2013, we were the first to offer account management services for Internet finance providers;
- in 2015, we became the first third-party payment service provider to apply web crawler technology and big data analytics in risk management in relation to Internet finance providers;
- in 2015, we were among the first to provide same-day settlement services through our close cooperation with UnionPay, backed by our advanced risk management and big data analytics capabilities; and
- in 2016, we were the first to adopt facial recognition technology to achieve a highly automated, 24/7 merchant approval process.

We believe our focus on continuous innovation and pioneering of new business models, technologies and services have enabled us to quickly develop and commercialize solutions that are customized around client needs and changing market environment, and to win a leading market position.

#### **Industry leading payment and fintech enabling services**

As a leader in the PRC third-party payments industry, we are well-positioned to capture opportunities in the market to develop more diverse and client-centric payment and fintech enabling services.

We provide comprehensive payment services and solutions to micro and small merchants and industry verticals. According to Frost & Sullivan, we are one of the 16 third-party payment service

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providers in China that are capable of processing a combination of POS, Internet, mobile and cross-border payments. Our payment solutions enable clients to offer their customers a seamless, convenient and safe way to pay regardless of whether such payments are made in-store, online, or on-the-go.

We provide omni-channel payment solutions to micro and small merchants. As commerce expands to a growing number of channels and scenarios, we believe providing a convenient solution across all payment channels will enhance customer experience and allow us to quickly expand our micro and small merchant client base. Our omni-channel payment solutions allow clients to receive payments from UnionPay bank cards, online banking, various digital wallets such as Alipay and WeChat Pay, and other digital payment methods such as QuickPass and Apple Pay. Our offering of the *SuPay* (閃電寶) mobile POS solution has increased the number of our micro and small merchant clients by 260% to over 5.8 million as of December 31, 2017 in just one year.

We provide tailored solutions for select industry verticals. Our solutions address their needs to respond to changing and complex payment scenarios. Our industry focus and deep sector insight have allowed us to win substantial market share in select industries and given us the ability to replicate our success to more market segments in the future. We believe we have set the standards for payment solutions in the Internet finance and airline ticketing industries.

Leveraging our industry leading expertise in payment and related technologies, we provide fintech enabling services primarily to Internet finance providers and commercial banks. In particular, we leveraged our years of technical expertise in managing our client accounts to design and commercialize the account management systems for Internet finance providers in China which integrate our payment solutions with their existing systems. According to Frost & Sullivan, we are the largest third-party payment service provider to Internet finance providers in terms of number of clients.

### **Broad client reach through multiple and complementary sales channels**

Through our extensive ISO network, efficient direct sales force and channel partners, we have reached a broad merchant client base and effectively covered select industry verticals.

According to Frost & Sullivan, we were the first third-party payment service provider to build an ISO network for POS services, which gained us a significant number of micro and small merchants across China in a cost-effective manner. Our third-party ISO network covers over 40% of approximately 300 prefecture-level cities in China.

Our strong direct sales force focuses on key industries, such as Internet finance and airline ticketing, including their upstream and downstream market participants. To date, we have provided payment and fintech enabling services to over 1,500 Internet finance providers and 4,000 companies in various industry verticals.

We started in 2017 to partner with leading SaaS service providers to integrate our payment services into their solutions and leverage their distribution channels and client base to conduct marketing and develop merchants. We are also in close collaboration with PRC commercial banks to jointly develop high-value merchants.

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### **Single and integrated platform with high operating efficiency**

We provide comprehensive services and solutions to clients of different sizes and industries through a single, integrated technological and operating platform. This platform is highly scalable, enabling us to efficiently manage, update and maintain our technology infrastructure and increase processing capacity and speed and realize significant operating leverage. This platform also enables us to innovate, develop and deploy new services and provides us with significant economies of scale.

Building on our single and integrated platform, we have taken a number of initiatives to achieve high operating efficiency. We focus our efforts on process optimization, technology and automation, and artificial intelligence to improve efficiency. We have employed a lean management approach to optimize our business process since 2009. This has allowed us to lower our processing costs, reduce payment turnover time and achieve a “same-day” deployment of payment terminals to merchants. We also extensively utilize technology and automation in our business process, such as for managing fund settlement, client services, merchant approval and ISO network. In 2017, we launched an online client service platform to process all types of client workflow on an automated basis, such that we can significantly shorten lead-time for responding to client inquiries. In addition, we have adopted proprietary artificial intelligence technology in our customer service system to address over 80% of client enquiries.

### **Deep technology and data analytics expertise and capabilities**

Our business is driven by technology and our success depends on our research and development capabilities. Our IT engineers, programmers and data scientists account for 36.7% of our total headcount as of December 31, 2017 and we incurred RMB79.8 million, RMB93.3 million and RMB130.8 million in research and development expenses in 2015, 2016 and 2017, respectively. We believe we are an industry leader in developing, upgrading and commercializing payment and fintech solutions. Our research and development team has developed and commercialized over 40 information technology systems. In particular, we started to license our proprietary risk management system for custodian banks for Internet finance providers in early 2018. We were the only third-party payment service provider to receive an artificial intelligence-related research grant from the Shanghai government for developing a facial recognition tool in 2017, also a testament to our research and development capability.

We leveraged our research and development capability to form a solid foundation for our technology infrastructure. All of our principal information technology systems, such as our bank-grade IT infrastructure, enterprise-grade account system and smart payment gateway system, are developed in-house. Supported by our technology infrastructure, we can effectively and securely process millions of payments daily, while complying with applicable regulations and minimizing the risk of fraud. In addition, we are the first PRC third-party payment service provider to partner with Alibaba Cloud, a leading cloud service provider in China, to expand our processing capacity and flexibility.

Processing a large volume of payment transactions has allowed us to gain access to massive transaction and business data over time. We have a data center for managing and analyzing data. Since 2013, we have accumulated 27.8 million accounts in providing account management services for Internet finance providers and over 100 billion pieces of payment-related data which are structured and analyzable. We use powerful data analytics technology to create value for us and our clients, such as detecting abnormal transactions, identifying high-risk merchants and generating real-time business

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intelligence reports, which helps improve our operating efficiency, risk management and customer services.

### **Comprehensive, robust and technology-driven risk management**

Risk management is critical to our market reputation, regulatory compliance, operating efficiency and financial performance.

We have built a proprietary technology-driven risk management system to effectively manage and mitigate risks inherent in our business to protect us, our clients and our partners, as well as to comply with regulatory requirements. The system addresses a variety of risks including fraud, money laundering, legal and compliance, IT, liquidity and operational risks.

We have a well-organized risk management structure, led by our risk management committee, and we implement an enterprise risk management system by identifying and proactively addressing major risks in our business. Our dedicated risk management team is comprised of over 45 highly competent and analytical professionals, and is closely involved in all major aspects of our operations.

We use data analytics in our real-time risk monitoring systems to quickly identify and intercept suspicious and fraudulent transactions. Due to our effective fraud risk management, our impairment of other receivables, primarily representing our impairment of chargebacks caused by fraudulent transactions, decreased from RMB70.7 million in 2015 to RMB43.6 million in 2016, and further decreased to RMB31.6 million in 2017.

### **Experienced management team and innovative workforce**

Our management team has extensive experience in both the technology and financial services industries, which is instrumental to our success. Our founder, chairman and chief executive officer, Mr. ZHOU Ye, is a veteran and leader in China's third-party payments industry with over 20 years experience. He led the development of China's first Internet payment gateway project while serving as the general manager of a subsidiary of UnionPay. From their previous executive roles at UnionPay, financial institutions and technology companies, our senior management team has profound insights into industry trends and is able to effectively identify and seize new market opportunities. In addition, our senior management team has nurtured a strong corporate culture focused on innovation and performance, paving the way for our continued success.

Our workforce is professionally trained and innovative. As of December 31, 2017, 79% and 13% of our employees have obtained bachelor's degree and master's degrees or above, respectively. Over 31% of our employees had prior experience in financial services and over 50% in the technology industry. In addition, we have a number of talent nurturing and retention programs to ensure a strong and sustainable workforce, essential for our long-term growth.

## **OUR STRATEGIES**

Our competitive strengths have positioned us favorably to pursue a variety of new opportunities. We aim to become a leading global payment and fintech enabling services provider by executing the following strategies.

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### **Further expand our client base to increase revenue**

Expanding our client base will increase payment volumes and economies of scale, which in turn will expand our revenue. We intend to expand our client base through the following strategies:

- We believe that there is a significant growth opportunity for us to further expand our micro and small merchant client base in China. We intend to expand our ISO network presence in tier-three and tier-four cities in China and enhance our merchant relationships and sales efficiency through more effective ISO management.
- We believe that the next generation commerce in China, also commonly known as the “New Retail”, will introduce the integration of online, offline, logistics and data across an entire value chain. To capture this emerging market opportunity, we intend to partner with SaaS providers and leverage their distribution channel and client base to deploy our solutions and expand into new industries and market segments.
- We will also continue to invest in our direct sales teams to facilitate the acquisition and support of key industry verticals and high-value clients, such as those in logistics, education and healthcare sectors, especially in tier-one and tier-two cities in China, such as Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu.
- We intend to expand our cross-border payment services into outbound tourism and overseas education sectors, and offer payment services in more countries.
- For our fintech enabling services, we intend to offer more diversified fintech services and develop clients in the financial services industry in China, such as commercial banks, securities firms, fund management firms and direct banks. Also see “—Continue to develop fintech enabling services to capture clients’ needs” below.

### **Diversify our offering of payment-based value-added services to improve client experience and maximize merchant value**

We believe client experience is the key to winning and maintaining merchant relationships. We intend to strengthen and diversify our services to improve client experience and maximize merchant value:

- We intend to promote our “*Loan Marketplace*” and other financial introduction services on our SuPay mobile POS solution and provide such value-added services among our millions of micro and small merchants to enhance client loyalty and increase our commission fee revenue. We also plan to enhance the functionality and stability of our *SuPay* mobile solution to improve client experience.
- To enhance the loyalty of industry vertical clients and maximize their value, we intend to offer more value-added services that are complementary to our payment solutions and centered around client needs, such as cash management, factoring and data analytics.
- As more diverse payment methods appeal to merchants, we will continuously improve our omni-channel payment solutions, such as offering new channels, services and devices.

### **Continue to develop fintech-enabling services to capture clients’ needs**

We intend to enhance our technical capabilities, especially our ability to quickly develop, commercialize, and deploy more customized fintech services to Internet finance providers in response

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to changing regulatory and market environments. In particular, we are developing an open system for payments routing which can be connected to most of the commonly used operating systems by other payment service providers. This open system could easily be integrated to a client's operation system through a software development kit or as a cloud-based SaaS. We believe this open system will appeal to large industry clients who desire to save research and development expenses, while reserving their flexibility to negotiate the processing fee rate and swiftly switch to the most cost-effective payment service provider, like us.

We also aim to extend our fintech enabling services to serve the participants of the traditional financial services industry, particularly small and medium-sized commercial banks, securities firms, fund management firms and direct banks in China, which may lack the necessary technical capability, and operational know-how to develop various technology systems by themselves, while our fintech services enable them to digitize their services quickly and offer more convenient financial services to their customers.

### **Continue to strengthen technology and research and development capabilities**

We intend to continue our focus on innovation and research and development and maintain our technology advantage in the third-party payments industry. We plan to invest greater resources to upgrade our information technology infrastructure, payment gateway system and account management system to enhance the processing capacity of our payment services and the reliability of our principal technology systems.

To remain at the forefront of our industry, we intend to strengthen our research and development capability and develop and commercialize the latest technologies and solutions by maintaining a regular dialogue with our clients, business partners and regulatory authorities. In particular, we intend to invest in data mining and analytics, business intelligence and artificial intelligence technologies to enhance our fraud detection capability and strengthen our technical capability to offer more diverse data-driven value-added services. In addition, we plan to collaborate with international research institutes to set up research labs to focus on cutting-edge payment technologies and innovative payment solutions.

In addition, we intend to expand our research and development team. We seek to laterally hire experienced talents in the financial services and technology industries with expertise in information technology infrastructure, system development, big data analytics, artificial intelligence and cloud computing to continue to enhance our research and development capability.

### **Further recruit and cultivate talents**

To maintain a robust and innovative workforce, we intend to improve our employee training programs, optimize our human resources structure and offer a market-oriented compensation and transparent career development platform which rewards creativity and commitment. We are implementing various human resources initiatives that are responsible for delivering our next generation team leaders and senior managers.

As we grow, we intend to expand our specialized direct sales force by hiring seasoned business development and sales personnel who are experienced in dealing with key industry verticals, such as those in the logistics, education and healthcare sectors, to facilitate our offering of customized industry solutions. We also intend to expand our operations and risk management teams to strengthen our middle and back-office functions.

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### Selectively pursue strategic alliances and acquisitions

As part of our growth strategy, we plan to pursue strategic alliances and selective acquisitions in attractive new markets which we believe can create synergies with our existing services and enhance our technology capabilities and client base.

We plan to acquire small and medium-sized payment technology companies, payment service providers and SaaS providers. We favor fast-growing companies in their respective markets whose businesses are complementary to ours, in terms of research and development, client base, marketing channels, and corporate culture. We believe expansion through acquisitions could efficiently enhance our technical capability, and the acquisition of licensed overseas payment service providers with sufficient channel access and client base in local markets could help us expand globally. We evaluate many factors when choosing to enter a foreign country, including market opportunity, technology adoption, and the regulatory environment.

We intend to finance our acquisitions principally by the net proceeds from the Global Offering, together with external financing, such as bank loans, if there is any funding shortfall. As of the Latest Practicable Date, we have not identified or pursued any acquisition target.

### AWARDS AND RECOGNITION

During the Track Record Period, we have received awards and recognition for our achievements and innovation in China's payments and fintech industries. Some of the significant ones are set forth below.

<u>Award/Recognition</u>	<u>Year</u>	<u>Award Institution/Authority</u>
Excellent Unit of Payment and Clearing Association of China (中國支付清算協會優秀單位)	2017	Payment and Clearing Association of China (中國支付清算協會)
Second Prize for the Shanghai Financial Innovation Award (上海金融創新獎二等獎)	2017	Shanghai Municipal Government (上海市政府)
Shanghai Safe Internet Service Enterprise (上海安全互聯網服務單位)	2017	Shanghai Information Network Security Administration Association (上海市信息網絡安全管理協會)
Annual Outstanding Payment Agency (年度卓越支付機構)	2017	The Economic Observer (經濟觀察報)
National Outstanding Team of Internet Security Management by Ministry of Public Security of China (中國公安部全國網絡安全管理優秀團隊)	2016	Internet Security Bureau of the Ministry of Public Security of China (中國公安部網絡安全保衛局)
Shanghai Enterprise of the Year in Innovation, and Internet Plus (上海市 2016 年度名企(創新型、互聯網+領域))	2016	Shanghai Software Industry Association (上海市軟件行業協會)
Outstanding Performance—Finance Innovation Award (卓越表現獎—最具金融創新獎)	2016	China Business Journal (中國經營報)

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<u>Award/Recognition</u>	<u>Year</u>	<u>Award Institution/Authority</u>
Global Growth Companies (全球成長型公司)	2015	World Economic Forum (達沃斯論壇)
Top 50 for National Internet Finance of China (中國互聯網金融50強)	2015	Forbes (福布斯)

### OUR BUSINESSES

Our principal businesses comprise (i) merchant payment services, and (ii) fintech enabling services.

- **Merchant Payment Services:** We provide various merchant payment services to millions of micro and small merchants as well as companies in select industry verticals. Our solutions enable clients to offer their customers a seamless, convenient and safe way to pay regardless of whether such payments are made in-store, online, or on-the-go.

Our merchant payment services are divided into five types, consisting of POS, Internet payment, mobile POS, mobile payment and cross-border payment services. Our POS services involve providing POS terminals and software to enable merchants to accept payments from bank cards through the UnionPay clearing network. Our Internet payment services enable merchants to receive payments on the Internet which are normally executed on a computer, and are primarily provided to industry verticals in our customized industry-specific solutions. Our mobile POS services utilize various communication methods, such as Bluetooth, near field communication and QR codes, which enable wireless data transfers between devices whereby a payment is processed through our proprietary mobile app and mobile POS accessory. Our mobile payment services enable payers to make payments using their mobile devices which are then processed through a third-party mobile app connecting to our services. Our cross-border payment services process payments for cross-border transactions, primarily for cross-border ecommerce platforms.

- **FinTech Enabling Services:** Building on our strong payment technological capability, we also provide fintech enabling services to Internet finance providers and commercial banks which empower them to improve their information visibility, operation efficiency and data security, and enable them to offer more flexibility and convenience when serving their customers. Our services include SaaS offerings, such as account management services, and data-driven value-added services.

The following table sets forth the breakdown of revenue generated from our businesses for the years indicated:

	Year ended December 31,					
	2015		2016		2017	
	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%
Merchant payment services . . .	478.9	86.2%	1,012.0	92.4%	1,622.8	94.0%
Fintech enabling services . . . .	74.7	13.4	69.6	6.4	99.9	5.8
Others <sup>(1)</sup> . . . . .	2.1	0.4	13.1	1.2	3.5	0.2
<b>Total</b> . . . . .	<b>555.7</b>	<b>100.0%</b>	<b>1,094.8</b>	<b>100.0%</b>	<b>1,726.3</b>	<b>100.0%</b>

(1) Our other revenue includes primarily service fees from the provision of supporting services and rental income from the provision of office premises to our affiliates that are not members of our Group as a result of the Reorganization. See “History and Reorganization—Corporate Structure.”



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As technology and the payments industry evolve, our clients, primarily micro and small merchants and companies in select industry verticals, face continuous needs to enhance customer experience by adapting to their customers' preferred payment methods. To meet our clients' needs for customized solutions, we develop and provide a range of merchant payment services and fintech enabling services for them to grow their business and engage with consumers, allowing their customers to make payments in a more convenient, efficient and secure way.

### Merchant Payment Services

We provide comprehensive payment services through our single proprietary payment technology platform. Our payment solutions enable merchants and companies in select industry verticals to offer their customers a seamless, convenient and safe way to pay regardless of whether such payments are made in-store, online or on-the-go.

The following table sets forth the breakdown of revenue generated from our merchant payments business by service types for the years indicated.

	Year ended December 31,					
	2015		2016		2017	
	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%
POS .....	135.2	28.2%	47.7	4.7%	68.3	4.2%
Mobile POS .....	72.9	15.2	704.9	69.7	1,208.2	74.5
Internet payments .....	233.0	48.7	187.6	18.5	240.2	14.8
Mobile payments .....	37.7	7.9	70.9	7.0	92.1	5.7
Cross-border payments .....	—	—	0.9	0.1	14.0	0.8
<b>Total .....</b>	<b><u>478.9</u></b>	<b><u>100.0%</u></b>	<b><u>1,012.0</u></b>	<b><u>100.0%</u></b>	<b><u>1,622.8</u></b>	<b><u>100.0%</u></b>

All of our revenue from Internet payment, mobile payment and cross-border payment services during the Track Record Period represented service fees from processing payments. Most of our revenue from POS services during the Track Record Period represented service fees from processing payments, which were RMB130.4 million, RMB42.9 million and RMB68.1 million in 2015, 2016 and 2017, respectively. The remainder primarily represented the sales of POS terminals. Most of our revenue from mobile POS services during the Track Record Period represented service fees from processing payments, which were RMB52.6 million, RMB634.1 million and RMB1,157.1 million in 2015, 2016 and 2017, respectively. The remainder primarily represented the sales of mobile POS accessories and service fees for providing technical support to new clients.

The table below sets forth the breakdown of our processed payment volume by payment service types for the years indicated. Payment volume measures the total monetary amount of payment transactions we process for our clients. As we primarily generate transaction revenue as a percentage of payment volume, we believe payment volume is a key indicator of our ability to generate revenue.

	Year ended December 31,					
	2015		2016		2017	
	Payment volume (RMB in billions)	%	Payment volume (RMB in billions)	%	Payment volume (RMB in billions)	%
POS .....	156.0	34.8%	49.0	7.6%	55.7	4.9%
Mobile POS .....	25.6	5.7	238.4	37.1	603.7	53.0
Internet payments .....	203.5	45.4	238.7	37.2	321.7	28.2
Mobile payments .....	63.6	14.2	115.5	18.0	153.9	13.5
Cross-border payments .....	—	—	0.3	0.1	4.9	0.4
<b>Total .....</b>	<b><u>448.6</u></b>	<b><u>100.0%</u></b>	<b><u>641.9</u></b>	<b><u>100.0%</u></b>	<b><u>1,140.0</u></b>	<b><u>100.0%</u></b>

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### **POS**

Our POS services involve providing hardware, primarily POS terminals, and software to enable merchants to accept payments from bank cards through the UnionPay clearing network. Our POS services to merchants feature fast and easy sign-up, timely access to funds, simplicity and affordability. In 2015, 2016 and 2017, the payment volume processed through our POS services amounted to RMB156.0 billion, RMB49.0 billion and RMB55.7 billion, respectively. For the same periods, our revenue generated from POS services was RMB135.2 million, RMB47.7 million and RMB68.3 million, respectively.

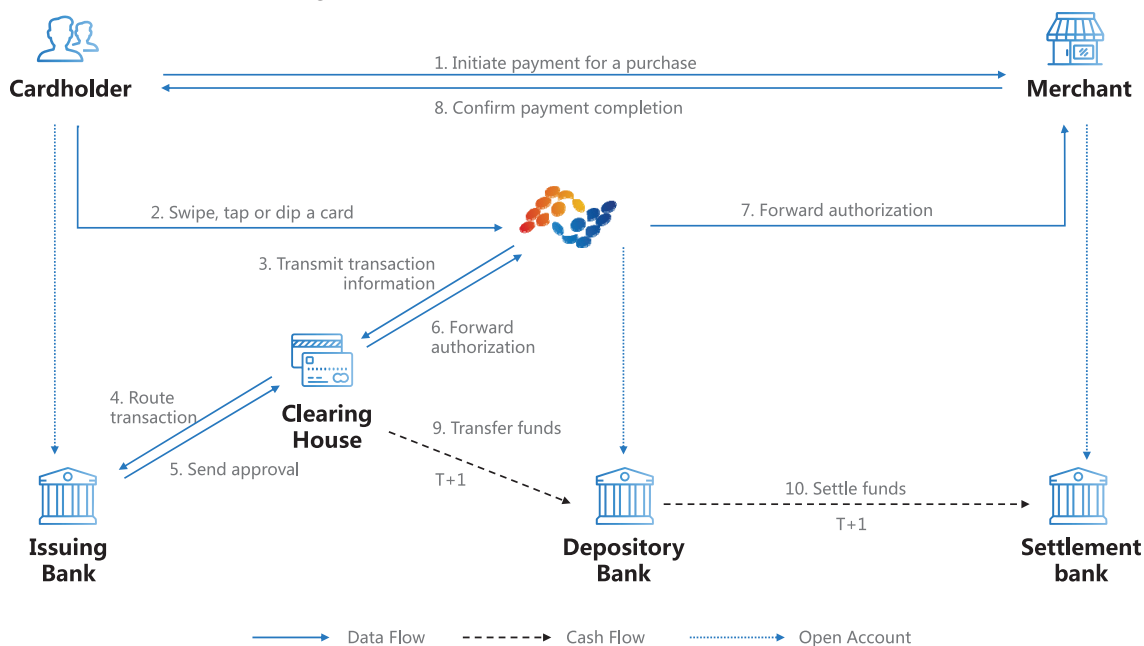
#### *POS processing overview*

In addition to cardholders and merchants, the processing of POS transactions requires close coordination among several market participants who provide the services and infrastructure required to conduct such transactions. These participants consist of the clearing house, issuing banks, depository bank for client reserve funds, and settlement banks. Within this network, we serve as the payment service provider, connecting a merchant to the rest of the participants.

- *Payment service provider:* Provider of payment services that maintains the direct relationship with the merchants and leverages its technical capabilities to efficiently verify the merchants' qualifications. The payment service provider transmits payment information and authorizations between cardholders, issuing bank, clearing house and merchants, facilitates the cash flows and completes the settlement of funds through its technology platforms.
- *Clearing house:* Provider of the infrastructure that connects, secures and transmits transactions between payment service providers and issuing banks to facilitate the transmission of payment authorization, clearing and settlement. During the Track Record Period, UnionPay was the sole clearing house for our POS services. For the details of our arrangements with UnionPay. See “—Our Suppliers and Business Partners—UnionPay.”
- *Issuing bank:* The commercial bank that issues the credit or debit card.
- *Depository bank for client reserve funds:* The bank with which the payment service provider opens the depository accounts to hold funds received from the issuing bank, also known as the client reserve funds. See “—Client Reserve Funds.”
- *Settlement bank:* The bank with which the merchant holds an account to receive funds.

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As an illustration, the payment process for POS services and the role of each participant involved are shown in the diagram below:



1. The cardholder initiates a payment.
2. The cardholder swipes, taps or dips the bank card on a POS terminal deployed by us, which captures and secures payment information and routes it to us.
3. We process the payment request and transmit the secured payment information to the clearing house.
4. The clearing house routes the payment information to the issuing bank for authorization.
5. The issuing bank verifies the bank card information and sends a notification of approval for the transaction (or rejection, in which case this payment process ends) to the clearing house.
6. The clearing house forwards the transaction feedback to us.
7. After we send the results to the POS terminal of the merchant, we debit receivable on behalf of clients as current assets, credit payable on behalf of clients as current liabilities, and recognize our service fee as revenue after this step.
8. The POS terminal prints a receipt for the cardholder to sign to confirm the payment.
9. After completing the clearing process with the issuing bank, the clearing house transfers the funds net of processing fees to our depository account. We debit cash received on behalf of clients as restricted cash, and credit receivable on behalf of clients when we receive the funds after this step.
10. We settle the funds received net of our service fee to the merchant's account in the settlement bank.

We provide various settlement services to merchants according to our agreements with them and our risk management policy, such as standard T+1 settlement, or optional same-day settlement. In the case of same-day settlement, UnionPay directly settles the funds to the clients at our request and deducts equivalent amounts from the funds UnionPay would transfer to us on the following day. Our clients typically pay an additional fee for same-day settlement while we pay UnionPay a processing fee in connection with this service. The majority of our qualified merchant clients choose to use our same-day settlement service.

### *Pricing*

For each successful POS payment, a processing fee is deducted from each settlement amount to the merchant which is typically based on an agreed percentage of the payment volume. The POS processing fee consists of (i) a processing fee of the issuing bank, (ii) an interchange fee of UnionPay, and (iii) our service fee. As the processing fee of the issuing bank and interchange fee of UnionPay are deducted directly by them we only account our service fee as revenue in our financial statements.

Pricing for POS services is regulated by the NDRC and the PBOC. Before September 6, 2016, the processing fee rate was based on the nature of the merchant's industry and shared among the

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issuing bank, the payment service provider and UnionPay in the proportion of approximately 70%, 20% and 10%, respectively. Effective from September 6, 2016, a new and unified processing fee range differentiated by debit or credit card has been introduced, under which (i) the processing fee for the issuing bank for a debit card transaction and credit card transaction is capped at 0.35% and 0.45% of the transaction volume, respectively, and the former shall not exceed RMB13 in a single transaction, (ii) the interchange fee for the clearing house on both debit and credit transactions is capped at the lower of RMB6.5 or 0.065% of the transaction volume, borne equally by the issuing bank and the payment service provider, and (iii) the service fee rate for a third-party payment service provider like us is largely market-driven. See “Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on bankcard acquiring business—Pricing mechanism of bankcard transaction fee.” As an illustration, on a RMB1,000 credit card POS payment that we processed through a POS terminal, the issuing bank is entitled to RMB4.5 as processing fee, of which RMB0.325 will be settled to and retained by UnionPay as half of its interchange fee. UnionPay retains RMB0.325 as our share of its interchange fee before it transfers the remaining RMB995.175 to our depository account. We retain our service fee based on our agreement with the merchant before settling the remaining funds with the merchant. We may need to share a certain percentage of our service fee with an ISO if the merchant was developed by the ISO. See “—Sales Channels—ISO.” If our service fee rate is 12bps and the ISO shares 7bps of the transaction volume, we will settle RMB993.975 with the merchant and retain RMB1.2 as our service fee while paying RMB0.7 to the relevant ISO as commission.

In 2015, 2016 and 2017, our average service fee rate for POS services, calculated by dividing our POS service fees (exclusive of the processing fee of the issuing bank and interchange fee of UnionPay that are both deducted by them before settling to us) by the POS payment volume we processed, was 8bps, 9bps and 12bps, respectively.

### *Internet payments*

Our Internet payment services enable merchants to receive payments on the Internet which are normally executed on a computer. Our Internet payment services accept payments from UnionPay bank cards and major digital wallets. We provide Internet payment services primarily to industry verticals in our customized industry-specific solutions. In 2015, 2016 and 2017, payment volume we processed through our Internet payment services was RMB203.5 billion, RMB238.7 billion and RMB321.7 billion, respectively. For the same periods, our revenue generated from Internet payment services was RMB233.0 million, RMB187.6 million and RMB240.2 million, respectively.

### *Internet payment processing overview*

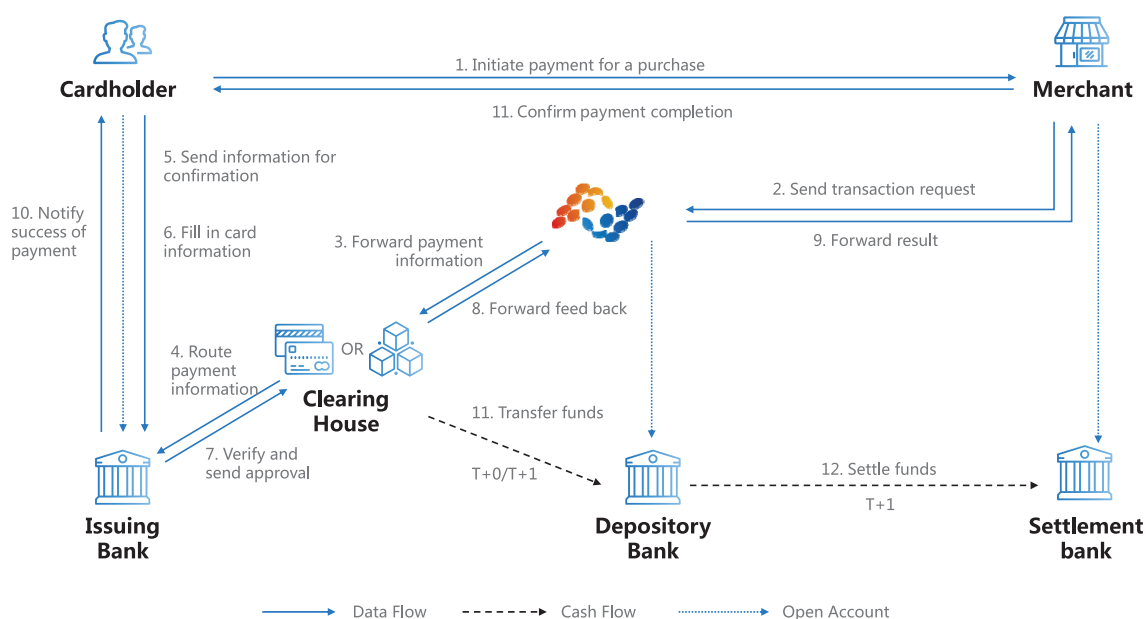
Similar to POS services, a number of market participants are involved in Internet payment processing. Under the current model, third-party payment service providers are connected with either the payment gateway of PRC commercial banks, enabling interbank payments, or with the clearing system of UnionPay.

In August 2017, the PBOC mandated the establishment of a nationwide centralized clearing platform for Internet and other network payments, NetsUnion, and third-party payment service providers are required to forward such payments via this new platform from the second half of 2018, rather than connecting to the commercial banks. We are a shareholder of NetsUnion with an equity interest of 1.18%, and the other shareholders are public institutions and other major third-party

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payment service providers. We believe, going forward, this new clearing platform may play a similar role in Internet payments to that which UnionPay plays in POS payments. As of the Latest Practicable Date, there is no indication that NetsUnion will charge an interchange fee or otherwise change the current fee structure among various market participants. However, it is still unclear how this development will affect the business model or pricing of our Internet payment services. See “Risk Factors—Risks Relating to Our Business and Industry—The introduction of NetsUnion poses uncertainties and challenges that may adversely affect our results of operations, financial condition and prospects.” and “Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on Network Payment—Regulations on the establishment of China Nets Union Clearing Corporation.”

As an illustration, the payments process for Internet payment services and the role of each participant involved are shown in this diagram below:



1. A cardholder initiates an Internet payment.
2. The merchant sends the payment transaction request to us.
3. We process the payment request and forward the secured payment information to a clearing house.
4. The clearing house routes the payment information to the issuing bank for authorization.
5. The issuing bank sends payment information to the cardholder for confirmation.
6. The cardholder fills in the card information and confirms the payment.
7. The issuing bank verifies the card security information and sends a notification of approval for the transaction (or rejection, in which case this payment process ends) to the clearing house.
8. The clearing house forwards the transaction feedback to us.
9. After we forward the result to the merchant, we debit receivable on behalf of clients as current assets, credit payable on behalf of clients as current liabilities, and recognize revenue and cost of sales after this step.
10. The cardholder is notified of the success of the payment by the issuing bank.
11. The merchant confirms to the cardholder that the payment is complete.
12. After completing the clearing process with the issuing bank, the clearing house transfers the funds to our depository bank account. We debit cash received on behalf of clients as restricted cash, and credit receivable on behalf of clients when we receive the funds after this step.
13. We settle the funds received net of our service fee to the merchant’s account in the settlement bank.

### Pricing

For each successful Internet payment, we deduct from the settlement amount a service fee which is typically an agreed percentage of the payment volume, and pay to the issuing bank or UnionPay a fee for connecting to the payment gateway which is negotiated on a case-by-case basis. As

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an illustration, on a RMB1,000 Internet payment that we processed, if our service fee rate is 12bps and the issuing bank charges a fee of 7bps of the transaction volume, we will settle RMB998.8 with the merchant and retain RMB1.2 while paying RMB0.7 to the issuing bank. We generally do not pay commission to ISOs for the promotion of our Internet payment services which are primarily provided to industry verticals in our customized industry specific solutions and acquired by our direct sales force. In 2015, 2016 and 2017, our average service fee rate for Internet payments, calculated by dividing our service fees (inclusive of the gateway fees to be paid to issuing bank or UnionPay) by the payment volume we processed, was 11bps, 8bps and 7bps, respectively.

### *Mobile POS*

Our insights into micro and small merchants have allowed us to quickly develop and deploy services and solutions that meet their increasing needs in respect of accepting payments anywhere, in a store or on the go, in a quick, easy and secure way. Our mobile POS services utilize multiple communication methods, such as Bluetooth, near field communication and QR codes, which enable wireless data transfer between devices, whereby the merchants initiate and process payments on their own smartphones through our proprietary mobile app and mobile POS accessory. The customers could either swipe, dip or tap their bank cards, or make payments using various digital payment methods, such as Apple Pay, QuickPass, Alipay and WeChat Pay.

In 2015, 2016 and 2017, the payment volume we processed through our mobile POS services was RMB25.6 billion, RMB238.4 billion and RMB603.7 billion, respectively. For the same periods, our revenue generated from mobile POS services (including service fee from processing payments, sales of mobile POS accessories and service fees for providing technical support to new clients) was RMB72.9 million, RMB704.9 million and RMB1,208.2 million, respectively.

### *Mobile POS payments processing overview*

The merchant initiates a payment process on the mobile app, enters payment amount on the app and uses a connected mobile POS accessory to read either a bank card or accept payment information transmitted from digital payment methods through near field communication technology or scanning QR codes, and the payment is primarily processed in the same way as a POS payment. In 2015, 2016 and 2017, our payment volume for payments with former approach was RMB25.6 billion, RMB147.3 billion and RMB211.3 billion, respectively, while the service fee revenue generated from this approach was RMB52.6 million, RMB391.9 million and RMB405.0 million, respectively. For the same periods, our payment volume for the latter approach was nil, RMB91.1 billion and RMB392.4 billion, respectively, while the service fee revenue from this approach was nil, RMB242.2 million and RMB752.1 million, respectively.

### *Pricing*

The corresponding arrangement for fees deducted by the issuing banks and UnionPay are similar to the fee arrangements in POS services. In 2015, 2016 and 2017, our average service fee rate for mobile POS services, calculated by dividing our service fee revenue (inclusive of the gateway fee to be paid to the issuing bank or UnionPay) for mobile POS services by the payment volume processed, was 21 bps, 27 bps and 19 bps, respectively.

### *Mobile payments*

Among the various payment segments, payments from mobile phone have witnessed an explosive growth in the past years. With an increasing number of users of smartphones and mobile

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apps, payments from mobile phone have penetrated major industry verticals in China. Our rich experiences of serving industry verticals have allowed us to quickly develop and deploy services and solutions that meet their increasing complex needs in respect of processing payments from mobile phone. Our mobile payment services enable payers to make payments using their mobile devices which are then processed through a third-party mobile app connecting to our services by application programming interface, software development kit or HTML5, which are interfaces that expedite the development or integration of specific functions with a client's existing app.

In 2015, 2016 and 2017, the payment volume we processed through our mobile payment services was RMB63.6 billion, RMB115.5 billion and RMB153.9 billion, respectively. For the same periods, our revenue generated from mobile payment services was RMB37.7 million, RMB70.9 million and RMB92.1 million, respectively.

### *Mobile payments processing overview*

The payments initiated on a smartphone through a third-party mobile app connecting to our services are processed in the same way as an Internet payment.

### *Pricing*

The corresponding arrangement for fees paid to issuing banks or UnionPay are similar to the fee arrangements in Internet payment services. In 2015, 2016 and 2017, our average service fee rate for mobile payments, calculated by dividing our service fee revenue for mobile payments by the payment volume processed, was 6bps, 6bps and 6bps, respectively. Our service fees include the gateway fee to be paid to the issuing bank or UnionPay.

### *Cross-border payments*

We were among the first third-party payment service providers in the PRC to obtain the permit for cross-border payment services. We launched these services in 2016, primarily serving cross-border ecommerce platforms. In 2016 and 2017, the payment volume of the cross-border payments we processed was RMB0.3 billion and RMB4.9 billion, respectively. For the same periods, our revenue generated from cross-border payment services was RMB0.9 million and RMB14.0 million, respectively.

### *Inbound payments*

Our inbound payment services enable overseas customers to pay for goods and services offered by PRC ecommerce platforms in their local currencies, such as US dollar, Japanese Yen and Euro, and we settle the payments in Renminbi with the PRC ecommerce platforms.

### *Outbound payments*

Our outbound payment services enable customers in China to pay in Renminbi for goods and services offered by overseas ecommerce platforms, using mainstream payment methods in China. We work closely with PRC commercial banks to arrange for the exchange of foreign currencies and cross-border remittances. Our outbound payment services are also subject to foreign exchange risk.

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### *Pricing*

We charge a service fee for cross-border payments typically based on a percentage of the payment volume we process, which is negotiated with each merchant on a case-by-case basis. In 2016 and 2017, our average service fee rate for cross-border payments was 32bps and 29bps, respectively.

Since the exchange rate we quote to clients and that used for the funds settlement may differ, we may be exposed to foreign exchange rate risk. See “Risk Factors—Risks Relating to Our Business and Industry—Our cross-border payment services are exposed to foreign exchange rate risk.”

### **Fintech Enabling Services**

With our expertise in payment and related technologies, we have been developing and commercializing a broad portfolio of fintech enabling services that could seamlessly incorporate into our clients’ business to improve their information visibility, operation efficiency and data security, and to enable them to offer more flexibility and convenience when serving their customers. We categorize our fintech enabling services into fintech SaaS and data-driven value-added services.

The following table sets forth a breakdown of our revenue from fintech enabling services for the years indicated.

	Year ended December 31,					
	2015		2016		2017	
	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%
<b>Fintech SaaS</b>	<b>74.7</b>	<b>100.0%</b>	<b>69.0</b>	<b>99.1%</b>	<b>84.4</b>	<b>84.5%</b>
<i>Account management</i> . . . . .	74.7	100.0	67.3	96.7	72.9	72.9
<i>Technology and operation     support</i> . . . . .	—	—	1.7	2.4	11.6	11.6
<b>Data-driven value-added services</b> . . . . .	—	—	<b>0.6</b>	<b>0.9</b>	<b>15.5</b>	<b>15.5</b>
<b>Total</b> . . . . .	<b>74.7</b>	<b>100.0%</b>	<b>69.6</b>	<b>100.0%</b>	<b>99.9</b>	<b>100.0%</b>

### ***Fintech SaaS***

Leveraging our strong technology capabilities, we have developed a broad range of SaaS for Internet finance providers and commercial banks.

#### *Account management services*

Based on our expertise in developing our own account systems, we have commercialized enterprise-grade account management systems for Internet finance providers, particularly online lending platforms and ecommerce merchants. They need sophisticated account management systems that can handle increasingly complex payment transactions and manage a large customer base. These account systems have the functions of top-up, cash withdrawal, split account, as well as record-keeping, and could be seamlessly integrated into the clients’ existing business platforms to improve their operational efficiency.

These account systems also enable us and our clients to provide cash management services, through licensed third-party fund managers, to the account holders to mobilize their account balance to earn a return. Such services could be combined with our other services and solutions based on a client’s choice.



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With our proprietary artificial intelligence technologies and client verification expertise, and the secured verification channels that we established with banks and authorized third-party data providers, we have developed and commercialized a customer authentication system to help our clients remotely verify the identities of their customers on a 24/7 basis. To provide Internet payment services, we have agreements with several banks for accessing their payment gateways, and the verification of whether cardholders' identity information is consistent with their records in the bank is a prerequisite for using the bank's service. When we provide customer authentication service to our clients together with Internet payment services that enable our clients to receive payments from their customers, we are confident that a customer who successfully completed the verification process by the bank has provided accurate information, thus completing the customer authentication without disclosing confidential personal information. As of December 31, 2017, we have verified the identities of over 27.8 million account holders for over 1,500 Internet finance providers.

We usually charge clients a one-time service fee for deploying the account management systems in their platforms, and an annual fee for maintaining and updating the systems and providing verification services.

### *Technology and operation support*

We provide technology and operation support to commercial banks to enable them to provide custodial account management services to online lending platforms. In accordance with the Interim Measures for the Administration of the Business Activities of Online Lending Information Intermediary Institutions promulgated in August 2016, PRC commercial banks are responsible for managing investors' accounts to monitor and safeguard funds of borrowers and lenders. We carry out business in strict compliance with the relevant PRC laws and regulations, and do not act as a custodian for online lending platforms. Our services enable banks to manage custodial accounts more efficiently and meet the rapidly changing business needs of online lending platforms.

We usually charge the banks a service fee which is a percentage of the account management fee that the custodian bank received from the online lending platforms.

### *Risk management*

In order to detect fraud and enhance management of risks relating to online lending platforms, we leverage our big data analytics capabilities and our risk management system to collect and analyze large amounts of information on Internet finance providers from a variety of sources. Based on the results of the analysis, the system automatically adjusts the risk rating of each Internet finance provider. We have commercialized our proprietary risk management system to meet the needs of banks and other financial institutions. This service was launched in 2018. As of the Latest Practicable Date, we have offered our risk management services to Hua Xia Bank.

### *Data-driven value-added services*

We have used our expertise and data analytics capabilities from our merchant payment services to develop value-added services that help our clients reach customers or gain deeper insights into their businesses.

We provide sales and marketing services to Internet finance providers to facilitate our merchant clients' access to their loans. Through the *Loan Marketplace* (貸款超市) on *SuPay*, we have introduced approximately 45,000 micro and small merchants to various reputable lending platforms who benefit from our know-your-customers screening and transaction data monitoring. Given the detailed

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transaction records available to us and our stringent customer assessment process, the average approval rate for our merchants' applications was over 23.5% in 2017. For our services, these Internet finance providers pay us a commission fee. In 2017, Internet finance providers extended loans of approximately RMB269.2 million to our merchant clients.

Based on our merchant payment services, we provide our clients with business intelligence services that increase the visibility of their key operation trend and support faster and more informed decision process. We usually offer this service together with our other services and do not charge a fee separately. In the future, we may revisit our pricing policy based on client feedback and market environment and may charge a subscription fee for this service. We cooperate with a leading cloud computing service provider to develop fintech enabling services for small and medium-sized financial service providers to digitalize their retail business.

### OUR SOLUTIONS

We primarily serve micro and small merchants and companies in select industry verticals. Based on their business sizes and payment processing needs, we design and offer payment solutions which combine one or more of our merchant payment services and certain fintech enabling services.

Micro and small merchants demand payment solutions that are convenient, efficient and affordable. Moreover, as a significant number of micro and small merchants in China embrace payments from mobile phone, we have been gradually switching our focus from providing POS services to integrated payment solutions which enable them to accept both bank cards and digital payment methods efficiently and cost-effectively.

We offer tailored industry solutions comprising one or more merchant payment and fintech enabling services to clients in select industry verticals in China, principally Internet finance, airline ticketing and cross-border ecommerce, to meet their needs for speedy payment processing, reliable settlement of funds, streamlined operations, regulatory compliance and business data analysis. According to Frost & Sullivan, we were the first to launch customized payment solutions for airline ticketing agencies and online lending platforms, an important subset of Internet finance providers. We also develop and offer tailored payment solutions to the industry sectors that have great potential for payment services, such as healthcare and logistics.

The solutions that have made major contributions to our revenues are illustrated in the following table.

Solutions	Merchant Payment Services				Fintech Enabling Services		
	POS	Internet payments	Mobile POS	Mobile payments	Cross-border payments	Fintech SaaS	Data-Driven Value-added Services
<b>SuPay</b>	—	—	√	—	—	—	Loan Marketplace
<b>Internet finance</b>	—	√	—	√	—	Account system management; Technology and operation support	Business intelligence services
<b>Airline ticketing</b>	√	√	—	—	—	—	Business intelligence services
<b>Cross-border ecommerce</b>	—	—	—	—	√	—	Customs clearance services; Marketing services

### SuPay Mobile POS Solution

Our key solution for the micro and small merchants is *SuPay*, enabling them to accept payments directly on our *SuPay* app by scanning QR codes generated by digital wallets such as Alipay and WeChat Pay, and accept bank card payments through mobile POS accessories, generally in the form of Bluetooth-enabled card readers. It also serves as a gateway to our *Loan Marketplace* and other value-added services. Below are screenshots of SuPay mobile app's intuitive user interface and payment interface.



- *Mobile POS services*: For a description of these services and pricing, see “—Our Businesses—Merchant Payment Services—Mobile POS.”
- *Loan Marketplace*: We allow reputable lending platforms in China to market their loan products to registered users through the *Loan Marketplace* function. Only registered merchants who reach a certain payment volume can gain access to the details of the loan products and be directed to the websites or app of the lending platforms to apply. For a description of these services and pricing, see “—Our Businesses—Fintech Enabling Services—Data-driven value-added services.”
- *Other value-added services*: *SuPay* acts as a gateway to our cash management service, known as *Shenglibao* (生利寶). For a description of these services and their pricing, see “—Our Businesses—Fintech Enabling Services—Fintech SaaS—Account management services.” We also provide users with public utilities payments services such as mobile phone bill recharge, and water and electricity payments to increase user stickiness. Such services are optional for users and are mostly free.

This solution has brought significant growth in clients and revenue in the Track Record Period. Over five million micro and small merchants in China had installed the *SuPay* app by the end of 2017. In December 2015, 2016 and 2017, the number of monthly active merchants of *SuPay*, for whom the payment volume we processed exceeds RMB1,000 per month, was approximately 0.1 million, 0.6 million and 2.3 million, respectively. *SuPay* processed a total of RMB437.9 billion of payment volume

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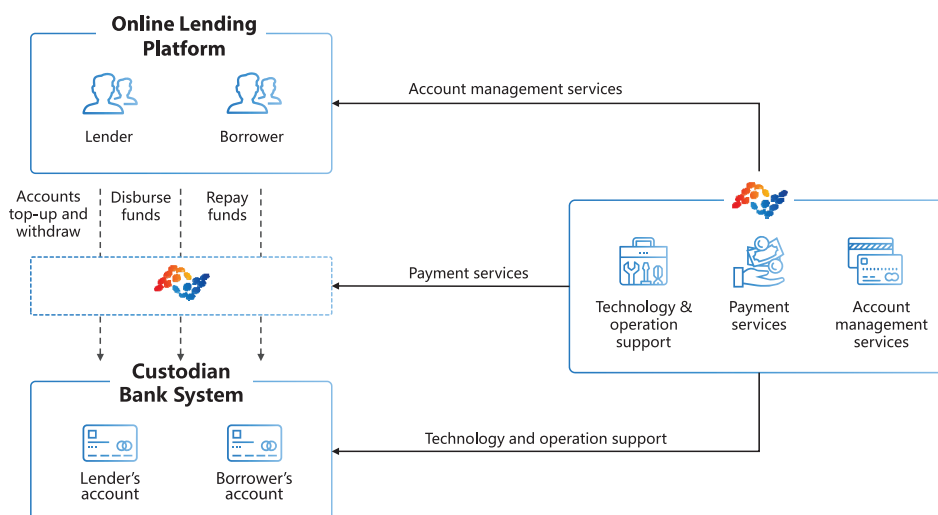
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in the second half of 2017, which increased by 213.3% compared with the same period in 2016. In 2015, 2016 and 2017, the payment volume processed through *Supay* was RMB25.6 billion, RMB238.4 billion and RMB603.7 billion, respectively. For the same periods, we generated RMB52.6 million, RMB634.1 million and RMB1,204.8 million, respectively, in revenue from *SuPay*. In addition to a service fee, we charge new clients a technical support service fee, which is refundable in full or part if their payment volumes exceed a certain threshold.

### Internet Finance

We believe secure, efficient and reliable payments are the critical infrastructure for the Internet finance industry. As online lending platforms need to process numerous transactions between the borrowers and lenders, and comply with the regulatory requirements to separate customers' funds from proprietary accounts, they demand customized solutions that meet their needs for speedy payment processing, reliable settlement of funds, streamlined operations and regulatory compliance. We are the largest payment service provider for online lending platforms in terms of the number of clients, according to Frost & Sullivan. As of December 31, 2017, our client base covered over 1,500 Internet finance providers with an aggregate of over 27 million individual accounts in China. In 2015, 2016 and 2017, the payment volume processed through our payment solutions for the Internet finance industry was RMB196.4 billion, RMB306.0 billion and RMB409.3 billion, respectively. For the same periods, we generated RMB124.8 million, RMB193.4 million and RMB248.7 million, respectively, in revenue from our payment solutions for the Internet finance industry.

Our solutions for online lending platforms primarily integrate our Internet payment, mobile payment and our account management services. The diagram below illustrates our *Xiangrikui* (向日葵) solution, which is one of our core solutions designed for online lending platforms.



- **Payment services.** With our industry-leading payment capability, we provide payment services to online lending platforms by allowing borrowers and lenders on these platforms to transfer funds, in the form of account top-up and withdrawal, between their own personal bank accounts and the digital accounts opened in the designated custodian banks. These digital accounts are set up due to the regulatory requirements for commercial banks to monitor and safeguard funds of borrowers and lenders, and do not handle cash or allow deposits or withdrawal of funds by borrowers or lenders directly. We also facilitate lenders' disbursement of funds to borrowers, and borrowers to repay funds to lenders. We

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charge the online lending platforms for the top-ups and withdrawals we process for their borrowers and lenders. For the description of this service and pricing, see “—Our Businesses—Merchant Payment Services.”

- *Account management service.* Empowered by our enterprise-grade account system and user verification system, our solution helps online lending platforms set up and manage the accounts of lenders and borrowers by allowing account opening and verification, top-up, service fee charge, cash withdrawal and record-keeping, as well as providing purchase and redemption channels for cash management products and enabling these platforms to introduce complex products to attract customers. For the description of this service and the pricing, see “—Our Businesses—Fintech Enabling Services—Data-driven value-added services.”
- *Technology and operation support.* Our solutions for online lending platforms are often paired with our technology and operation support provided to the custodian banks where borrowers and lenders open their digital accounts. For a description of this service and the pricing, see “—Our Businesses—Fintech Enabling Services—Data-driven value-added services.”

### **Airline Ticketing**

We are the second largest Internet payment service provider for the airline ticketing industry in China in 2017 in terms of market share, according to Frost & Sullivan. As of December 31, 2017, our client base covered 18 major PRC airlines, five major online travel agencies and over 1,500 ticketing agencies. In 2015, 2016 and 2017, the payment volume processed through our payment solutions for the airline ticketing industry amounted to RMB34.7 billion, RMB17.8 billion and RMB20.0 billion, respectively. For the same periods, revenue generated from our payment solutions for the airline ticketing industry was RMB82.0 million, RMB41.2 million and RMB39.4 million, respectively. The decrease in payment volume processed by our solutions for the airline ticketing industry in 2016 was primarily due to the fact that in 2016 the State-owned Assets Supervision and Administration Commission of the State Council required commercial airlines to increase the proportion of revenue generated from direct sales of airline tickets to passengers. Such change dampened the demand for our industry solutions targeting airline ticketing agencies. To quickly adapt to this change, we have enhanced our cooperation with commercial airlines and online travel agencies on whose platforms these airlines set up their direct sales channels, which resulted in an increase in our payment volume from the airline ticketing industry solution in 2017 compared to 2016.

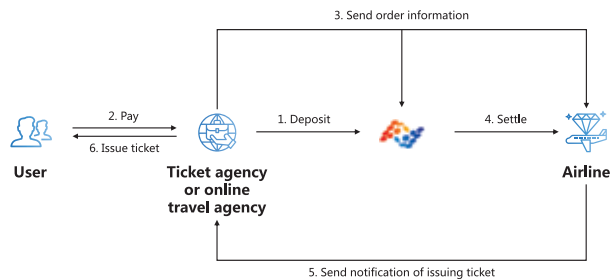
We gained our leading position through continuously providing innovative solutions to increase the operating efficiency and liquidity of major participants in the airline ticketing industry, connecting airlines, ticketing agencies and online travel agencies.

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The diagram below illustrates our payment processing for ticketing agencies, online travel agencies and airlines:



1. The ticketing agency or the online travel agency deposits funds into the account in our system.
2. The user purchases ticket through the agency or the online travel agency and makes payment.
3. The ticketing agency or the online travel agency sends order information to us and the airline.
4. We verify the account balance of the ticketing agency or the online travel agency and send verification to the airline.
5. The airline sends notification of ticket issuance to the ticketing agency or the online travel agency.
6. The ticketing agency or the online travel agency forwards the ticket to the user.

### Cross-Border Ecommerce

Our main cross-border payment clients are inbound and outbound ecommerce merchants. Launched in 2016, our cross-border ecommerce solution had 219 active ecommerce clients as of December 31, 2017. In 2016 and 2017, payment volume processed through our payment solutions for the cross-border ecommerce industry was RMB0.3 billion and RMB4.9 billion, respectively. For the same periods, we generated RMB0.9 million and RMB14.0 million, respectively, in revenue from our payment solutions for the cross-border ecommerce industry. Our core solutions for this industry include:

- *Overseas direct mail one-stop shopping platform.* A solution that provides a series of services such as marketing, integrated payments, logistics, and customs clearance for small and medium-sized merchants. We help overseas small and medium-sized merchants expand business through our platform by reaching more PRC consumers using many marketing methods such as electronic direct mail and social-media marketing. We also cooperate with several logistics companies to provide overseas small and medium-sized merchants on our platform with international logistics services.
- *Cross-border digital payment solution.* We cooperate with overseas financial institutions and the Shanghai Cross-border Ecommerce Public Service Platform to provide outbound ecommerce solutions for Chinese export ecommerce businesses.

### Other Solutions

We also have other customized solutions for merchants of various sizes and businesses in industries with high growth potential.

- *Zhihuiguanjia (智匯管家).* Our integrated payment systems help merchants to accept a wide range of major payment methods, through the integration of multiple hardware such as smart POS terminals, mobile POS accessories, POS terminals, cash register stations and QR code table cards. *Zhihuiguanjia* also provides a business intelligence monitoring interface, making it easier for merchants to monitor their transactions and financial records on a real-time basis, develop customized membership rewards programs, and provide their consumers with value-added services such as cash management.
- *Zhifu+ (支付+).* We provide an integrated Internet and mobile payment solution for retailers and digital content providers with Internet-based storefronts who want to deploy

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payment processing functions in their existing websites or mobile app with ease. This solution enables them to accept payments through mainstream Internet and payment methods on the mobile phone in China, and provides a number of value-added services, such as cash management and business intelligence services.

- *Suguanjia* (速管家). Due to multiple layers of participants involved in the logistics value chain, the logistics industry needs payment solutions with multiple and flexible accounts. We developed *Suguanjia*, a solution featuring a multilayer accounts structure which seamlessly connects with the logistics operations system. This solution also incorporates business intelligence services.

### OUR CLIENTS

We primarily serve micro and small merchants and companies in select industry verticals. We have accumulated a large client base. As of December 31, 2017, we served over 5.8 million micro and small merchants. The following table sets forth a breakdown of our revenue by client type for the years indicated.

	Year ended December 31,					
	2015		2016		2017	
	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%	Revenue (RMB in millions)	%
<b>Micro and small merchants</b> .....	<b>208.1</b>	<b>43.5%</b>	<b>752.6</b>	<b>74.4%</b>	<b>1,276.5</b>	<b>78.7%</b>
<b>Industry verticals</b> .....	<b>270.8</b>	<b>56.5</b>	<b>259.5</b>	<b>25.6</b>	<b>346.3</b>	<b>21.3</b>
<i>Internet finance</i> .....	134.7	28.1	194.8	19.2	249.4	15.3
<i>Airline ticketing</i> .....	82.0	17.1	41.2	4.1	39.4	2.4
<i>Cross-border ecommerce</i> .....	—	—	0.9	0.1	14.0	0.9
<i>Others</i> .....	54.1	11.3	22.6	2.2	43.5	2.7
<b>Total</b> .....	<b>478.9</b>	<b>100.0%</b>	<b>1,012.0</b>	<b>100.0%</b>	<b>1,622.8</b>	<b>100.0%</b>

The following table sets forth the number of micro and small merchants who use our POS and mobile POS services as of December 31, 2015, 2016 and 2017. None of our micro and small merchant clients used our Internet payment or mobile payment services during the Track Record Period.

	As of December 31,					
	2015		2016		2017	
	Number of merchants	%	Number of merchants	%	Number of merchants	%
POS .....	128,637	46.5%	220,465	13.7%	814,831	14.0%
Mobile POS .....	147,907	53.5%	1,383,222	86.3%	5,021,968	86.0%
<b>Total</b> .....	<b>276,544</b>	<b>100.0%</b>	<b>1,603,687</b>	<b>100.0%</b>	<b>5,836,799</b>	<b>100.0%</b>

The number of our merchant clients for mobile POS increased at a higher rate than that for POS payments services in the Track Record Period, reflecting our strategic focus on developing mobile POS services.

The number of micro and small merchants in China has grown rapidly in recent years, from 37.8 million as of December 31, 2012 to 81.0 million as of December 31, 2017, representing a CAGR of 16.5%, according to Frost & Sullivan. These merchants have historically been underserved by financial institutions and have very limited access to payment services and financial products. Our

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client base in the Internet finance industry consists of over 1,500 Internet finance providers who serve over 27 million individual accounts, and in the airline ticketing industry covers 18 major PRC airlines, five major online travel agencies and over 1,500 ticketing agencies. We are also growing our client base in industries that have great potential for our solutions, such as the healthcare and logistics industries.

### Client Onboarding

We are solely responsible for conducting due diligence to assess the quality and risk of the merchants we acquire, sometimes with the help of the third-party sales agents in our ISO network. Our process to bring customers onboard includes the following steps.

- *Merchant assessment.* Sales agents in our ISO network and our direct sales force are mainly responsible for sourcing new merchants. They identify and select prospective merchants usually by conducting an on-site inspection to evaluate the merchant's operations, business needs, financial condition and credit standing.
- *Collecting application materials.* Sales agents in our ISO networks and our direct sales force then collect the merchant's application materials and merchant information according to our internal checklist, including the merchant's business licenses, valid identity certificates of legal representatives or the persons in charge, and other relevant certification documents.
- *Merchant approval.* We adopted a stringent approach and implemented know-your-customer internal procedures, including (i) verifying the accuracy of information in application materials; (ii) checking the merchant against our internal and industry blacklists; (iii) conducting necessary inspections to ensure that the prospective merchant sells goods and/or provides services as stated; and (iv) determining the merchant's risk rating according to our internal policies and relevant regulations to adopt corresponding risk management measures. Specifically, we divide merchants into four risk levels—prohibited, high, medium and low risk—based on their identities, geographic locations, business operation models and industry sectors. We do not contract with any merchants rated as prohibited level. Merchants rated as high and medium risk may be subject to daily or monthly payment volume limits, limitation on settlement speed or other strengthened due diligence measures, such as further investigation into their *de facto* controllers and beneficial owners and their sources of funds. High and medium risk merchants are also obligated to provide additional information regarding their operations, or otherwise we may refuse to provide our services to them.

### Agreements with Clients

Our agreements with clients for both merchant payments services and fintech enabling services typically have a term of one year and are subject to automatic renewal absent written objection from either party. The pricing of our solution is based on the combination of the services utilized and we typically charge a fee in a similar range for the same solution.



The following table sets forth how we charge fees for our different services and solutions.

Services Solutions	Merchant Payments				Fintech Enabling		
	POS	Internet payments	Mobile POS	Mobile payments	Cross-border payments	Fintech SaaS	Data-driven Value-added Services
<b>SuPay</b>	—	—	√	—	—	—	Loan Marketplace
<b>Internet finance providers</b>	—	√	—	√	—	Account system management; Technology and operation support	Business intelligence services
<b>Airline ticketing</b>	√	√	—	—	—	—	Business intelligence services
<b>Cross-border ecommerce</b>	—	—	—	—	√	—	Customs clearance services; Marketing services
<b>Basis of fees</b>	A percentage of the payment volume processed and additional fees for same-day settlement service	A percentage of the payment volume processed	A percentage of the payment volume processed and additional fees for same-day settlement service	A percentage of the payment volume processed	A percentage of the payment volume processed	Account system management: one-off service fee for deployment plus an annual service fee	Loan Marketplace: Internet finance providers pay us a commission fee
						Technology and operation support: share part of the account management fee the bank received from the online lending platforms.	Marketing services: share a small portion of the revenue from the facilitated sales
							Business intelligence services: service fee on subscription basis
							Customs clearance services: packaged in the solution.

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The agreements typically contain clauses that allow one party to terminate the agreement in case that the other party substantially breaches the obligations under the agreement. We can unilaterally terminate the agreement if the client is reasonably believed to carry out suspicious or illegal transactions, later be placed on a regulatory blacklist, be subject to investigation or penalties due to violation of applicable laws or regulations, or otherwise damage our interests or reputation.

Under the agreements, we generally have the right to suspend our service if, among others, the merchants (i) fail to follow standards on operation procedures, technical specifics, security and other relevant standards required by the regulators or by us; (ii) have been the subject of complaints by card holders to the issuing banks more than three times, or (iii) are found to be involved in high-risk transactions multiple times.

Under the agreements, we generally have the right to seek indemnification for our losses caused by, among others (i) chargebacks if the merchants cause the transaction to become illegal, violate payment service agreements, fail to provide the services according to the card holders' instructions, or fail to cooperate in the chargeback investigation or provide underlying documents regarding the disputed transaction, or (ii) merchants' illegal activities, such as, among others, making misrepresentations in application materials, misappropriating or leaking confidential personal or payment information, tampering with payment terminals, processing payments for other merchants who have not entered into agreements with us, maliciously declaring bankruptcy to misappropriate prepayment, conducting credit card cash-out, conducting fictitious transactions, being involved in an abnormally high ratio of fraudulent or fictitious transactions, carrying out illegal business or otherwise violating applicable laws, regulations or rules. If the losses are attributable to both the merchant and us where each party's liabilities cannot be easily determined, the losses will be allocated based on the degree of each party's fault decided through negotiation, or if a consensus cannot be reached, through court judgments. The agreements stipulate that the merchants should not intercept any information of the card holders, or give any instruction on behalf of them.

Given our broad base of clients, we do not believe we have client concentration risks. Our five largest clients accounted for less than 30% of our total revenues in each of 2015, 2016 and 2017.

### CLIENT RESERVE FUNDS

Client reserve funds are amounts received on behalf our clients from processing payments and payable to clients. As required by "Measures for Management of Client Reserve Funds for Payment Services Institution" (《支付機構客戶備付金存管辦法》), all third-party payment service providers must hold client reserve funds in segregated accounts from their own cash, and deposit client reserve funds in designated accounts of depository banks. See "Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on the Management of the Client Reserve Funds."

The following table sets forth a breakdown of the amounts held in our accounts relating to client reserve funds as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Deposited in designated bank accounts . . . . .	2,370.7	3,744.8	2,994.1
Deposited in centralized depository accounts . . . . .	—	—	191.3
<b>Total</b> . . . . .	<b>2,370.7</b>	<b>3,744.8</b>	<b>3,185.4</b>

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We manage our client reserve funds by: (i) properly managing the opening and operation of depository accounts and selecting depository banks with proper qualifications and (ii) using technology to improve efficiency, such as adopting an automated processing system for our fund settlement, thereby enhancing efficiency and reducing operational errors that could cause delays. We believe the regulatory requirements on the centralized deposit and supervision of client reserve funds by the PBOC could reduce the risk of misappropriation and mismanagement of client reserve funds. See “Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on the Management of Client Reserve Funds.”

According to our accounting policy, our client reserve funds are recorded in both the current assets and liabilities of our consolidated balance sheet. We account for receivable on behalf of clients and cash received on behalf of clients as current assets and payable on behalf of clients as current liabilities. We had RMB2,350.8 million, RMB3,344.8 million and RMB3,185.4 million of cash received on behalf of client in our restricted cash as of December 31, 2015, 2016 and 2017, respectively. See “Financial Information—Liquidity and Capital Resources—Assets and liabilities—Client reserve funds.”

### CLIENT SERVICES

We are dedicated to providing the best user experience to our clients. Leveraging our core technology platform, we are able to offer our clients simple and speedy services so as to maximize their satisfaction. We have a dedicated client service team assisted by our proprietary client service chatting robot, which is able to analyze clients’ questions and provide relevant and useful responses through artificial intelligence technologies. Each client request, enquiry or complaint is recorded and assigned a specific case. Each of our client service personnel is responsible for the cases assigned to him or her and will follow up until the case is closed or resolved to our client’s satisfaction. As of December 31, 2017, we had a total of 63 client service personnel, including 40 front-line telephone client service staff and 23 back office client management system staff.

Since December 2015, we have been required by PRC regulations to disclose client complaints regarding our payment services on our website. In 2016 and 2017, we received 23 and 58 client complaints, respectively, and the average complaint handling time for these two years is two days. The complaints were mainly regarding slight delays in settlement with merchants, investment losses from the Internet finance platform to whom we provided payment services, or temporary technical issues on account activation and verification.

### SALES CHANNELS

We use different sales channels to reach clients of different sizes or industries. We leverage an extensive network of ISOs to develop relationships with millions of micro and small merchants across China. Our strong direct sales force is focused on key industries, such as airline ticketing and Internet finance. We also work with various channel partners, such as SaaS providers and commercial banks, and leverage their distribution channels and client base to deploy our solutions and develop new clients.

### ISO

According to Frost & Sullivan, we were the first PRC third-party payment service provider to build relationships with a network of ISOs for merchant payment business. ISOs are independent third-

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party service providers who assist us with developing micro and small merchant clients. We believe it has become an industry norm since then to leverage ISOs to facilitate sales of payment services, which is a cost-effective way to cover a large amount of micro and small merchants. As of the Latest Practicable Date, we have not granted any Options under the Pre-IPO Share Option Scheme to any ISO. As we increasingly focus on developing our mobile POS services, our ISO network plays an important role in acquiring merchant clients who use mobile POS services. As of December 31, 2017, our ISO network consisted of over 1,800 ISOs, covered over 40% of the approximately 300 prefecture-level cities in China, and had enabled us to reach over 5.8 million micro and small merchants across China. In the Track Record Period, substantially all of our micro and small merchant clients, which represent the vast majority of our clients, were originated by ISOs. In 2015, 2016 and 2017, the payment volume from these merchant clients was RMB181.6 billion, RMB287.4 billion and RMB659.4 billion, respectively, accounting for 40.5%, 44.8% and 57.8%, respectively, of the payment volumes we processed in the same periods. In 2015, 2016 and 2017, the revenues generated from these merchant clients was RMB208.1 million, RMB752.6 million and RMB1,276.5 million, respectively, accounting for 43.5%, 74.4% and 78.7%, respectively, of our revenue from payment services in the same periods.

ISOs do not have direct contractual relationships with the merchants who use our services. We directly enter into services agreements with the merchants. We select the ISOs we cooperate with in each geographic region based on factors including their qualification, senior management's experience in merchant payment services, internal controls, risk management, operation sustainability and reputation.

Once ISOs are approved through our internal procedures, we will enter into service agreements with them. According to the service agreements, ISOs are mainly responsible for merchant development and training, and the deployment and maintenance of our payment terminals in designated geographic areas in China. We reserve the right to terminate our agreement with an ISO if it provides services beyond its designated geographic area. ISOs are authorized to reasonably use our name and logo while developing merchants in compliance with our brand and promotion rules. We negotiate the key terms of our agreements with ISOs. We pay incentive fees to them if they can successfully develop a certain number of merchants. We also share a certain percentage of our service fees generated from our merchant clients with ISOs. We negotiate the key terms of our contracts, such as the incentive fees and fee-sharing arrangements, with each ISO on a case-by-case basis. The incentive fees and fee-sharing rate are typically subject to adjustments, according to their performance. We typically settle incentive fees and service fees with ISOs on a monthly basis according to our arrangements. Since ISOs are independent third-party service providers who strive to fulfill different merchants' needs for payment solutions with different features which may not be available from a single third-party payment service provider, they typically are not obliged to provide any exclusive services to us. Agreements with ISOs typically have a term of one year, subject to automatic renewal absent objection from either party.

Our agreements allow us to evaluate our ISOs' performance. We have established a rating system and rate them every year, focusing on the ISO's business performance and compliance in daily operations, including loss caused by abnormal transactions and compliance with our policies as well as other regulations. For the ISOs who do not meet our rating requirements, we may make inquiries and adopt necessary measures such as suspending or terminating our cooperation. During the Track Record Period, we terminated our cooperation with 398 ISOs, primarily because they failed to meet our business performance standards set out in our agreements. In 2015, 2016 and 2017, the churn rate for

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ISOs was 16.9%, 20.5% and 20.5%, respectively. The churn rate in a year is calculated by dividing the number of ISOs we have in the previous year but terminated cooperation with in the current year by the total number of ISOs we have at the beginning of the year.

We monitor risks related to ISOs according to regulatory requirements and industry practices. We have the right to terminate the agreement and seek damages if the ISO engages in activities that harm our brand name or interest. These activities typically include, among others, (i) violations of laws, regulations and UnionPay rules, causing us to be subject to warnings or penalties by the regulatory bodies or UnionPay, (ii) improper storage of sensitive personal and bank card information, (iii) multiple violations or risk incidents that lead to our losses, (iv) collusion with merchants to conduct illegal activities, such as fraudulent credit card cash-out, money laundering or acceptance of fraudulent cards, (v) assisting merchants in submitting fraudulent application materials during the onboarding process and (vi) introducing merchants who have already entered into agreements with us to other payment service providers. An ISO is obligated to indemnify us against losses, such as chargeback losses and litigation costs, resulting from the violation of its obligations under the agreement or for the illegal or fictitious activities of the merchants developed by the ISO such as, among others, making misrepresentations in application materials, misappropriating or leaking confidential personal or payment information, tampering with payment terminals, processing payments for other merchants who have not entered into agreements with us, maliciously declaring bankruptcy to misappropriate prepayment, conducting fraudulent credit card cash-out, conducting fictitious transactions, being involved in an abnormally high ratio of fraudulent or fictitious transactions, carrying out illegal business or otherwise violating applicable laws, regulations or rules. For a description of risk concerning ISOs, see “Risk Factors—Risks Relating to Our Business and Industry—If we fail to maintain our relationships with ISOs and other channel partners, or to properly manage them, our business, financial condition, results of operation, risk management capabilities and reputation could be adversely affected.”

### **Direct Sales**

Our direct sales force is responsible for sales and marketing towards key industry verticals, such as airline ticketing and Internet finance, and is divided into four sales regions to stay closer to our local clients. As of December 31, 2017, we employed 99 sales staff who are strategically stationed in major cities such as Shanghai, Beijing, Chengdu and Guangzhou. Many of our sales staff have previous working experience in the relevant industries. Meanwhile, our sales force focuses on the industries that have development potential, such as the healthcare, logistics and education industries.

Our direct sales force approaches potential clients in industry verticals mainly through industry conferences, summits or seminars. To maintain relationships with industry clients and enhance their loyalty, our sales staff gathers regular feedback from clients and keeps track of the latest developments in industry so that we can quickly customize and improve our services around our clients' needs.

### **Channel Partners**

Since 2017, we have partnered with well-known SaaS providers in China who primarily provide services to micro and small merchants so that we can leverage their distribution channels and client base to offer our payment services either by incorporating our payment solutions into their SaaS solutions, or by directly providing our POS and mobile POS services to their customers. The agreements we entered into with SaaS providers are similar to our agreements with ISOs in terms of the party's duties and rights, fee structures, performance evaluation, indemnification, and term. As of December 31, 2017, we have entered into merchant development agreements with ten SaaS providers.

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### BRANDING

We have built a well-recognized, trustworthy and respected brand that represents outstanding quality, excellent service and top-level security. Since most of our clients are micro and small merchants and companies in industry verticals, brand image building is the priority of our overall marketing strategy. We employ a variety of offline and online promotional activities to build our brand. For example, we sponsored industry meetings, published articles on professional websites and in magazines and pay for advertising on outdoor billboards, professional websites and in magazines.

### OUR SUPPLIERS AND BUSINESS PARTNERS

In addition to ISOs, our suppliers and business partners also include UnionPay which primarily provides us with clearing and switch services and access to payment gateways, commercial banks which primarily provide us with access to their payment gateways, as well as payment terminal manufacturers which supply us with mobile POS accessories and POS terminals.

In 2015, 2016 and 2017, purchases from our five largest suppliers accounted for 27.1%, 36.6% and 36.8%, respectively, of our total purchases. In addition, purchases from our single largest supplier accounted for 17.1%, 13.7% and 9.3%, respectively, of our total purchases during the same periods. During the Track Record Period, our five largest suppliers in a given year included three payment terminal manufacturers, three ISOs, three commercial banks and UnionPay.

Huifu FinTech, a member of the Excluded Group, owns 9.0% equity interests in Guizhou Golden Union Data Services Co., Ltd. (貴州金百合數據服務有限公司), one of our five largest suppliers in 2017. Mr. ZHOU Ye, our Director, owns 6.3% equity interests in Huifu FinTech. See “History and Reorganization” for more information on the Excluded Group, including our Directors and Shareholders’ interests in the Excluded Group.

Save as disclosed above, to the knowledge of our Directors, none of our Directors and their respective associates or any Shareholders holding more than 5% of our issued share capital had any interests in any of our five largest suppliers for each year of the Track Record Period as of the Latest Practicable Date.

### UnionPay

UnionPay is the only bank card clearing house and bank card association in China. It operates an inter-bank transaction settlement system through which the connection and switch between banking systems and the inter-bank, cross-region usages of bank cards issued by associate banks may be realized.

We forged a strong relationship with UnionPay, which considers us to be a preferred partner. Recognizing our pioneering and innovation capabilities, UnionPay recently entered into a comprehensive strategic cooperation agreement with us to jointly conduct marketing campaigns, promote value-added services, and reach a broader client base in China and overseas.

In 2012, we became a member for acquiring service from UnionPay. In 2016, we entered into a four-year network access agreement with UnionPay, with the option to extend for another three years. According to the agreement, UnionPay provides clearing services for our POS and mobile POS (involving swiping, dipping or tapping bank cards) processing through its network and jointly conducts

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marketing campaign with us. In return, UnionPay deducts an interchange fee from each transaction it processes. The interchange fee rate is set by the regulation of the PBOC and NDRC. The interchange fee for UnionPay on both debit and credit transactions is capped at the lower of RMB6.5 or 0.065% of the payment volume, borne equally by the issuing bank and the payment service provider. UnionPay also provides us with services to support our same-day settlement services to our clients for an extra fee for each transaction.

Under the network access agreement, we undertake to comply with UnionPay's business rules. UnionPay is entitled to monitor our daily operations and inspect our risk management, business operation, accounts information and data security. If we fail to meet its standard or to address the deficiencies or potential risks raised by UnionPay in a given period, it is entitled to suspend its services or even revoke our membership. UnionPay is entitled to require us to provide a deposit based on our credit rating and clearing status. We are also required by the agreement to comply with UnionPay's standards for developing, verifying and managing merchants for our payment services and entering agreements that contain proper risk allocation clauses with them. We are obliged to indemnify UnionPay, other members of UnionPay such as commercial banks, and cardholders against losses caused by us, fraud conducted by merchants we developed and fictitious transactions we processed.

The agreement will be automatically terminated if we are no longer a registered member of third-party payment service provider of UnionPay. UnionPay is entitled, but not obliged, to terminate the agreement unilaterally after written notice to us, if: (i) we fail to process all UnionPay bank card transactions via the UnionPay system without obtaining its written consent in advance, infringe UnionPay's trademarks, or are in material breach of the agreement and do not rectify the issues within 30 days of being notified; (ii) our actions are detrimental to UnionPay's brand and reputation, rendering it impossible to implement this agreement; or (iii) we are incapable of performing our obligations as a result of the commencement of winding-up proceedings.

### **NetsUnion**

NetsUnion is a nationwide centralized clearing platform for Internet and other network payments in China. Third-party payment service providers in China are required to channel Internet payments via NetsUnion after June 30, 2018 rather than connecting directly to the payment gateways of banks. After June 30, 2018, when third-party payment service providers are required to route Internet payments through NetsUnion, Alipay, WeChat Pay and other digital wallets will be treated similar to bank cards in terms of payment processing procedure. We will then process payments from Alipay, WeChat Pay and other digital wallets through NetsUnion. We believe that connecting to NetsUnion can reduce the system implementation costs and simplify the procedures for a third-party payment service provider compared to connecting to different banks' payment gateways.

As of March 31, 2018, NetsUnion had 45 shareholders, including seven shareholders that were public institutions collectively holding 37.0% of its equity interest, namely China National Clearing Center, with an equity interest of 12.0%, Wutongshu Investment Platform Co., Ltd., a wholly owned subsidiary of the SAFE, with an equity interest of 10.0%, China Banknote Printing and Minting Corporation, Payment & Clearing Association of China, Shanghai Gold Exchange, Interbank Market Clearing House Co., Ltd., and National Association of Financial Market Institutional Investors, each with an equity interest of 3.0%. The remaining 38 shareholders were third-party payment service providers collectively holding 63.0% of NetsUnion's equity interest as of March 31, 2018, among which the three largest shareholders were Tenpay Payment Technology Co., Ltd., Alipay (China)

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Network Technology Co., Ltd. and Chinabank Payments (Beijing) Technology Co., Ltd., with an equity interest of 9.61%, 9.61% and 4.71%, respectively. We were a shareholder of NetsUnion with an equity interest of 1.18% as of March 31, 2018.

In November 2017, we entered into a network access agreement with NetsUnion as one of its members, whereby NetsUnion is responsible for channeling payment information from our Internet and mobile payment transactions to corresponding banks and providing clearing services regarding the corresponding payment transactions. However, we are not allowed to directly connect our systems with other NetsUnion members to process Internet and mobile payment transaction after June 30, 2018. All members, including us, are required to process payments in compliance with NetsUnion's membership rules and to perform anti-money laundering and anti-terrorism financing duties pursuant to applicable laws and regulations. We are obliged to indemnify losses suffered by NetsUnion should the payment transaction we channeled be proven to be fictitious, inaccurate, incomplete, illegal or invalid. NetsUnion is obliged to compensate our direct losses that arise from NetsUnion's system failures. Our agreement with NetsUnion has a term of one year, subject to automatic renewal absent objection from either party.

To our best knowledge, as of the Latest Practicable Date, NetsUnion has not set a timetable for charging any fee or otherwise change the current fee structure among various market participants (such as unifying gateway fee rates in relation to Internet and other network payments after all such payments are required to be channeled via NetsUnion). Under the current approach, after NetsUnion is involved, third-party payment service providers will still be responsible for separately negotiating with banks the payment gateway fees charged by the banks and NetsUnion will be responsible for channeling payment requests between banks and third-party payment service providers who have reached agreements. Our relevant costs would not be affected under this approach. However, we will sign an agreement with NetsUnion to determine the pricing and payment terms for its services after NetsUnion sets a timetable for charging fees. It is unclear how such developments will affect the performance of our Internet and mobile payment services. See "Risk Factors—Risks Relating to Our Business and Industry—The introduction of NetsUnion poses uncertainties and challenges that may adversely affect our results of operations, financial condition and prospects" and "Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on Network Payment—Regulations on the establishment of China Nets Union Clearing Corporation."

### **Commercial Banks**

For our Internet and mobile payment services, we partner with major PRC commercial banks that provide us with access to their payment gateways. A bank's payment gateway typically can only process payments made via its own bank cards. As of December 31, 2017, we entered into gateway access agreements with 29 commercial banks in China, including the five largest commercial banks. In our cooperation with commercial banks, they provide us with access to their payment gateways, which facilitates payment transactions by the transfer of information between a payment portal, such as a website or a mobile device, and the bank's payment authorization system. We can process payments from Alipay, WeChat Pay and other digital wallets because the commercial banks with whom we cooperate are also in cooperation with these digital payment service platforms.

In return, we pay a processing fee, which is typically equal to a certain percentage of the payment volume, to commercial banks. We negotiate the fees with each bank on a case-by-case basis.



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Our agreements with clients typically have a term of one year subject to automatic renewal, absent written objection from either party.

The agreements usually subject us to the responsibility of screening merchant clients and their payment transactions to ensure their authenticity. Under these agreements, we are typically required to establish automatic transaction tracking systems to monitor cardholders' payments on a real-time basis. We are typically required to assume all losses arising from fictitious merchants or payment transactions.

### **Payment Terminal Manufacturers**

Our merchant payments business requires us to purchase payment terminals including mobile POS accessories to be deployed to our merchant clients. We typically order payment terminals from our suppliers only after we receive a request from ISOs to deploy payment terminals to a newly acquired merchant.

We believe that we are not dependent on any particular supplier for our payment terminals, and are capable of finding a number of qualified suppliers. We maintain and regularly update a list of qualified suppliers. When selecting a qualified supplier, we consider a number of factors, such as certification from UnionPay, product quality, offer price, market reputation, after-sales services, payment terms and the speed of delivery. We select suppliers from this list through a bidding process and by evaluating their product quality, prices and after-sales services. The suppliers we typically use are large PRC payment terminals manufacturers. We typically enter into framework agreements with our key suppliers, setting forth, among other things, quality specifications, pricing arrangements, delivery schedules, payment terms, warranty terms and after-sales services. The framework agreements are typically valid for one year subject to renewal. Under the framework agreement, we may place purchase orders based on our needs. The pricing range is pre-determined and adjusted according to the type of payment terminals sold and the purchase volume of each offer. Suppliers usually provide a credit term of three to nine months to us. Their after-sales services typically include warranty terms of 12 months. They typically provide technical support regarding maintenance, software updates and customer services to solve POS device malfunctions.

The agreements typically grant us the right to seek compensation from the manufacturers for our losses caused by, among others, (i) products with technical specifics and safety standards deviating from those approved by the competent test institutes, (ii) product defects, (iii) terminal tampering, hacking or other security breaches during merchants' usage, (iv) intellectual property right infringements or (v) delay in service deliveries.

Under the agreements, each party has the right to terminate the agreement with one month's written notice if the other party fails to perform its obligations under the agreement. We have the right to terminate the agreement if the delay in service delivery exceeds ten days.

## **TECHNOLOGY AND RESEARCH AND DEVELOPMENT**

We believe that proprietary infrastructure and technologies are critical to our success. We have made significant investments in developing our core technology systems, which represents one of our competitive advantages. Our information technology allows our customers to enjoy our services in a

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convenient, quick and cost-efficient manner, while we process payments in compliance with applicable regulations and with minimal risk of fraud.

### **Our Technology Infrastructure**

Our businesses are built on a range of core systems and we believe the ones that set us apart are the following:

#### ***Bank-Level IT Infrastructure***

We have built a secure, efficient and cost-effective infrastructure to provide strong computing ability in our system. Our computer lab obtained GB50174 B-level certification for small and medium-sized data centers granted by the China Quality Certification Center, which is an information technology infrastructure standard adopted by the information technology centers of many banks. As of December 31, 2017, our information technology infrastructure includes over 200 servers, which forms a strong server network with speedy processing capability. The infrastructure has been fully integrated with our computer environments and business requirements to serve as a powerful engine for our services and solutions.

We continue to adopt latest technologies to enhance our infrastructure capabilities. We are the first independent PRC third-party payment service provider to partner with Alibaba Cloud, a leading cloud computing service provider in China, to use cloud-base storage and computing services to expand our processing capacity and flexibility.

#### ***Smart Payment Gateway System***

We categorize our payment gateways based on different payment interfaces, such as online banking, QuickPass and QR code gateways. We have developed a smart gateway system that could select the most appropriate payment gateway based on transaction scenarios, efficiency and customer experience. As of December 31, 2017, our payment gateway system is able to process up to 1,200 transactions per second.

#### ***Enterprise-Grade Account System***

Our proprietary enterprise-grade account system is the core business system through which we provide payments and value-added services for our clients. We developed this system based on our extensive experience of serving a large and diverse client base. We developed the prototype of our account system in 2007 and continually upgraded it to improve its reliability, efficiency and compatibility with our new services and solutions, new payment scenarios and evolving regulatory requirements. This system sets up accounts with different functions according to our clients' business needs. The system tracks and records the balances of these accounts, allowing better visibility of the client's funds movements and management of our client reserve funds. We also commercialized our account system to provide account management services as part of our fintech enabling services for Internet finance providers, other financial institutions and ecommerce platforms.

### **Our Big Data Analytics and Artificial Intelligence Capabilities**

Data is one of the most important assets for payments service providers. Automated analysis and processing of information is becoming a trend for our industry. Throughout our business

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operations, our decision-making relies heavily on analysis of finance, risk, customers and other data. Our big data analytics and artificial intelligence technology enable us to process a huge amount of valuable data, and improve our operating efficiencies and customer satisfaction.

### *Data Analytics*

Our strong data analytics capability has significantly increase the value of our data. We process our transaction data through our data center, which is operated by a professional team of engineers and data scientists. Our data center is equipped with robust storage capacity, and has stored over 100 billion pieces of payment-related data as of December 31, 2017.

Through our various business systems, we have accumulated a large amount of data from analyzing consumer payment behaviors and consumption patterns. We are able to efficiently and accurately analyze large amounts of user data with our proprietary algorithms and machine-learning.

We apply data analytics in our business development process and risk management. Our data center provides convenient access to transaction data for each of our departments, including our risk management department and business units, so that they can receive and utilize the data they need on a real-time basis. For example, our business intelligence system empowers us to generate comprehensive reports and achieve data visualization from the data we have to support our management's instant decision-making to cope with the evolving competitive landscape. Our sophisticated data insights and data analytics capabilities have driven our rapid growth and improved our operational efficiency. Our accurate and comprehensive merchant profiling enables us to quickly and accurately identify risks associated with potential clients. We have built a fraud risk monitoring and management system based on real-time data processing and intelligent risk models. It captures fraud signals from a massive amount of data regarding user behaviors, analyzes them in real-time using machine learning, and intercepts abnormal transactions. These abilities are crucial in reducing our transaction loss rate and gaining valuable insights into our clients' businesses.

### *Artificial Intelligence*

We apply artificial intelligence in our biometrics payment authentication technology to improve our risk management, operating efficiencies and customer satisfaction. For example, we utilize machine learning to develop facial recognition and voice print functions in our solutions. According to Frost & Sullivan, we are the first in our industry to operate an automated client appraisal, authentication and signup system for micro and small merchants on a 24/7 basis, which is capable of processing over 10,000 daily merchant signup requests. We use our natural language processing algorithms to understand and analyze the Chinese language and its usage in various contexts to empower our automated customer services through chat-robots. We have integrated our artificial intelligence capabilities extensively to support risk management. For example, we have achieved significant improvements in signature verification and optical character recognition, enabling us to seize the very short window for intercepting fraudulent transactions before they enter our settlement system, and thus further reduce our fraud risk.

### **Our Research and Development**

We have a team of experienced engineers dedicated to research and development. As of December 31, 2017, our 346 research and development staff have expertise in system, infrastructure, artificial intelligence, system functioning, IT management, as well as operation and maintenance, together representing 36.7% of our total employees.

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We are committed to investing further in our research and development capabilities and expanding our research and development team to support our business development and maintain our technological advantages. Our previous research and development initiatives include improving and upgrading our infrastructures, such as our account management system and customer relationship management system, developing our business solutions, such as mobile POS systems and smart POS services systems, and strengthening our big data analytics and artificial intelligence and identity authentication capabilities.

Our engineers are based in our Shanghai office. We recruit most of our engineers from prestigious universities in China and laterally hire experienced candidates from well-established Internet and software companies. We compete aggressively for engineering talent to help us address challenges and maintain our technological edges. In 2015, 2016 and 2017, our research and development expense was RMB79.8 million, RMB93.3 million and RMB130.8 million, respectively.

### RISK MANAGEMENT

#### **Our Risk Management System**

We have established robust, comprehensive and technology-driven risk management to effectively manage and mitigate risks inherent in our business to protect us, our clients and our partners, as well as to meet regulatory obligations.

Our Board of Directors assumes the ultimate responsibility for our risk management, internal control and compliance. Our risk management activities are undertaken and monitored by a risk management committee and supplemented by the legal and compliance department, internal audit department and other business departments. Our risk management committee is led by Mr. ZHOU Ye, our Chairman, and supported by our risk management officer, Mr. CHEN Peilun, who has over 17 years' experience in risk management. Our risk management committee is responsible for identifying, controlling and preventing major risks across our organization, as well as promulgating and ensuring compliance with risk management policies. We also have a compliance and risk management department with expertise in legal and regulatory, finance and internal audits to oversee our daily risk management activities. As of December 31, 2017, our dedicated risk management team comprised over 45 highly competent and analytical professionals, and is deeply involved in the major steps in our business initiatives.

Our risk management system comprises three lines of defense:

#### ***First Line of Defense***

Our business units play the role of first line of defense by assessing, identifying, managing, reporting and controlling risk. Our business units manage their business risk exposure while conducting their business activities.

#### ***Second Line of Defense***

Our operation center and compliance and risk management departments are the second line of defense. The second line of defense is responsible for managing general and specific risks.

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### *Third Line of Defense*

Our internal audit department serves as the third line of defense, which provides independent assurance regarding the key risks to the organization, including an independent assessment of our risk management committee and risk management departments.

### **Enterprise Risk Management**

With our strong focus on compliance, we have developed our systematic enterprise risk management system. We are able to improve our ability as a third-party payment service provider to manage a variety of risks including fraud, anti-money laundering, legal and compliance, IT, liquidity and operational risks. The cooperation of different departments described in the aforementioned three lines of defense is implemented in the management of each type of risk.

### *Fraud Risk*

Fraud risk refers to the risk of direct or indirect financial loss or reputational loss, before or during the conduct of various businesses, arising from a lack of sound risk processing mechanisms or effective control methods.

Fraud management requires continual balancing between maximizing revenue, minimizing fraud loss and reducing operational costs. We have fraud risk management policies and procedures in place, which control our business operation. We leverage our big data analytics capacities to detect fraud risk in our POS, Internet payment, mobile POS and mobile payment services through our proprietary real-time transaction risk monitoring and fraud risk analysis systems.

### *Chargeback*

During the payment process for all of our four payment services, disputes sometimes arise between cardholders and merchants due to fraudulent, unauthorized transactions or the cardholders' dissatisfaction with merchandise or service quality. Under UnionPay's chargeback rules, when such disputes between cardholders and merchants are decided in favor of the cardholders, the transactions are "charged back" to the respective merchants and the related purchase amounts are refunded to the cardholders. In this process, the merchant, merchant acquirer and issuing bank each has its responsibilities, and the failure to fulfill such responsibilities will result in that party bearing the losses. Merchants are responsible for providing merchandise or services to the cardholders as agreed and handling the payment transaction according to the merchant acquirers' requirements. For example, the merchant's cashiers are responsible for checking the bank cards and rejecting invalid cards, accurately entering the transaction information into the POS terminals, checking the information on the POS slips, ensuring that they are properly signed by the cardholders, and keeping proper documentation of the transactions. Merchants acquirers are responsible for properly conducting the know-your-customer process when developing merchants and ensuring that merchants handle payment transactions properly. Issuing banks are responsible for verifying the identities of card applicants and cardholders to ensure that applications and transactions are conducted by the actual applicants or cardholders.

Under UnionPay's chargeback rules, in a UnionPay cleared payment transaction, the merchant acquirer is responsible for losses due to chargebacks if (i) the merchant acquirer cannot prove that the transaction has been authorized by the issuing bank, (ii) the merchant acquirer or the merchant do not carry out the acquiring process properly and cannot provide compelling supporting evidence for the

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absence of fault, (iii) the merchant acquirer or the merchant is found to have conducted fraudulent activities, or (iv) the chargeback cannot be solved through the disputes resolution process, and the merchant acquirer is ordered to bear the loss based on mediation by UnionPay. Otherwise, the issuing banks are responsible for losses due to chargebacks, such as in the cases of fraudulent transactions caused by leakage of cardholders' sensitive personal information due to security breach of their systems. UnionPay is not responsible for indemnifying any chargeback losses. Where the payment process does not involve UnionPay, according to our agreements with the issuing banks we generally have similar allocation of risk regarding losses from chargebacks. It is an industry norm for third-party payment service providers such as us to bear such losses in the above mentioned circumstances. Chargebacks do not affect our revenue recognition, but we record impairment of chargebacks as other expenses on our financial statements.

Since UnionPay does not have contractual relationship with merchants, its rules do not stipulate the allocation of chargeback liabilities between merchant acquirers and merchants, which is determined by their respective contractual arrangements.

Our clients, including micro and small merchants and companies in select industry verticals are typically obligated to indemnify us against chargeback losses resulting from violation of their obligations under their agreements with us. If ISOs are involved in developing such merchants, both merchants and the ISOs are typically obligated to indemnify us against chargeback losses resulting from violation of their obligations under their agreements with us. During the Track Record Period, we have sought indemnification from merchants or ISOs who developed the merchants to partially reimburse our losses from chargebacks due to illegal or fraudulent activities of the merchants, including during the widespread risk incident from December 2013 to January 2014. We generally deduct a portion of the commission and fees payable to the responsible ISOs and/or amounts payable to the responsible merchants as indemnity payments, and make impairment of chargebacks after taking the indemnified amount into account. For our indemnification arrangement with merchants, see “—Our Clients—Agreements with Clients.” For our indemnification arrangement with ISOs, see “—Sales Channels—ISO.”

The key to mitigating chargeback loss is to minimize our fraud risk. Due to our effective fraud risk management, our impairment of other receivables, primarily representing our impairment of chargebacks caused by fraudulent transactions, decreased from RMB70.7 million in 2015 to RMB43.6 million in 2016, and further decreased to RMB31.6 million in 2017.

### *POS services*

In the course of carrying out POS services, we face the risk of cardholders or cardholders colluding with merchants conducting fraudulent transactions, which exposes us to the risk of loss, adversely affects our relationships with our business partners or even subjects us to administrative penalties or other actions imposed by the regulatory authorities. Typical fraudulent transactions are in the form of chargeback frauds and counterfeit cards.

POS services risk management applies to the entire payment process. We screen the credentials of each merchant according to the regulatory requirements during the client onboarding process. See “—Our Clients—Client Onboarding—Merchant approval.” We have also established a real-time monitoring system that analyzes transactions based on historical transaction data and our proprietary data analytics technology. Through our risk monitoring system and merchant risk evaluation model,

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also known as “Risk Mapping,” we use various analyzing mechanisms to monitor our transactions on a real-time or quasi-real-time basis. We further set different transaction monitoring rules according to different merchants’ business models and transaction types to manage risks related to these merchants. For example, we use heightened risk management measures for, among other types of transactions, payments not using passwords, transactions involving chargebacks or refunds for goods. When an abnormal transaction is detected by the system, we receive alerts and then take immediate action, including intercepting transactions and preventing the settlement. Each incident provides an opportunity for us to reinforce our risk management capability. We regularly update our internal blacklists and monitoring system as well as adjust the risk rating of the merchants detected conducting abnormal activities. In order to optimize our merchant constitution and ensure sustainable business operation, we take measures with regard to merchants with abnormal or high risk transactions or operations in a timely manner. Specifically, we have established exit mechanisms for merchants showing red flags.

From December 2013 to January 2014, there were widespread cases in China where certain bank card holders colluded with merchants to abuse the credit card pre-authorization rules set by the issuing banks. The pre-authorization rules of credit card issuers were intended to temporarily hold the credit or cash value in the cardholder’s account and allow a cardholder to pay for services for an amount up to 115% of the held amount in the form of cash deposited in advance, also known as authorization hold, regardless of the original credit limit on the card. A typical circumstance of abuse of the pre-authorization rules is that the cardholder colludes with the merchant to cash out the excessive 15% credit by depositing cash in advance through a fictitious transaction. For example, the cardholder first deposits RMB100,000 cash into the credit card as authorization hold, by which it obtains available pre-authorization credit of RMB115,000, and then pays RMB115,000 with this card to the merchant it colludes with for a fictitious transaction such as hotel stays that do not happen. The merchant then deducts a certain percentage of the amount of the fictitious transaction (RMB5,000, for example) before transferring the remaining cash (RMB110,000, in this case) back to the cardholder. The cardholder defaults on the payment and the bank incurs a loss of RMB15,000 in this case. Abuses of pre-authorization rules have caused significant losses to the issuing banks and third-party payment providers, including us, who processed these fictitious transactions. In April 2014, the PBOC conducted an inspection on certain third-party payment providers, including us, involved in this wide spread risk incident, and identified certain deficiencies in our risk management and internal controls over merchants, ISOs and POS terminals in our POS services. In 2014, the PBOC took regulatory measures against ten third-party payment providers involved in this incident, including us, and ordered us to suspend our POS services in 15 provincial-level regions in China and suspend the acquisition of new merchants for POS services in the remaining 16 provincial-level regions in China. After this incident, we stopped processing any pre-authorized payment transactions and strengthened our risk management and internal controls over our POS services, including but not limited to enhancing merchant real-name registration, improving transaction risk monitoring and upgrading our risk management system. In light of our improvements in risk management and internal controls, in December 2015, the PBOC approved our application to resume acquisition of new merchants for POS services in 16 province-level regions in China. During the Track Record Period and up to the Latest Practicable Date, we have not been involved in any similar risk incident. The PBOC also confirmed to us that the regulatory measures imposed on us in 2014 did not constitute material administrative penalties. Our impairment of chargebacks as a result of the incident was RMB27.9 million, RMB14.4 million and nil, respectively in 2015, 2016 and 2017.

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### *Internet payments*

The risk involved in Internet payments refers to the reputational and financial losses caused by merchants' improper operations or collusions with third parties. The risks mainly include bank card misappropriation, telecommunication fraud and phishing.

Due to the higher risk presented by the Internet payment environment, we manage Internet payment risks by exerting more stringent oversight over online merchants, starting from the moment we engage with them, based on the transaction scenarios. We track each Internet payment transaction by applying similar risk management methods that we adopt for POS transactions, with risk rules and an analysis model customized for the Internet environment. We adjust the risk rating of merchants detected conducting abnormal activities and update our internal blacklists accordingly.

### *Payments on mobile phones*

In addition to adopting the risk management methods that are common to POS and Internet payment fraud risk management, we developed advanced technologies such as facial recognition to detect and mitigate fraud risks usually associated with payments on mobile phones. We manage such fraud risks by leveraging the data points and features specific to mobile devices. Our monitor system collects and analyzes, among others, mobile device fingerprints, subscriber identity modules, also known as SIM, geographic location information to identify abnormal activities that indicate high fraud risks, such as abnormal high frequency transactions and transactions in abnormal time.

### *Anti-Money Laundering*

We are exposed to risks caused by transactions involving the transferring of funds generated through illegal action or for terrorism purposes. We have the appropriate policies and procedures in place supported by our advanced technology to ensure compliance with the laws and regulations of the PRC, and in order to prevent money laundering and terrorist financing.

We have established and adopted policies and procedures, and provided education and training to our staff on anti-money laundering and anti-terrorist financing. Our guidelines on anti-money laundering are provided in anti-money laundering training to our new employees to ensure that they are aware of the possibility of money laundering and terrorist financing and their legal obligations in relation to such activities. In addition, we have set up an anti-money laundering and anti-terrorist financing committee to ensure compliance with the relevant rules and regulations regarding anti-money laundering and anti-terrorist financing. We submit reports to the PBOC about suspicious transactions and client identity information we identified in accordance with the relevant regulatory requirements.

We have developed a proprietary risk management system that applies before and after the transactions, which allows us to analyze a range of data to detect compliance issues and fraud. We check the recipient of each payment we process against internal and external anti-money laundering blacklists, and prohibit transactions involving recipients on such blacklists. We continuously monitor money-laundering risk by analyzing suspicious patterns and trends of completed transactions using our risk rules, then adjust the risk rating of the relevant merchants and update the blacklists.

### *Legal and Compliance Risk*

Legal and compliance risk is the risk of violating laws and regulations as well as internal policies. We have established a sound mechanism for legal and compliance risk management to



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effectively identify, evaluate, prevent and remediate compliance risk to ensure our compliance with laws and regulations.

Our legal and compliance department is responsible for establishing a robust compliance framework, implementing compliance policies and procedures, conducting compliance reviews for new services and internal rules and procedures as well as other legal documents and monitoring regulatory developments. It also reviews and updates the standard form of contracts we enter into with third parties, examines contract terms and reviews all relevant documents for our business operations.

### ***IT Risk***

IT risk is the risk of malfunction or malicious invasion of our IT system. See “Risk Factors—Risks Relating to Our Business and Industry—Failure to protect transaction information and data from continually evolving cybersecurity risks could affect our reputation and may expose us to penalties, liabilities and legal claims.”

We have established a multi-tiered information security system to improve our IT risk management capabilities with respect to identifying risks, defending against invasion, monitoring and warning, as well as response and recovery.

We have an information security policy and rules in place which control our information technology infrastructure. Access to all user systems (including staff, client and back-office systems) requires proper authorizations. Our computer system and information processing facilities are protected by firewalls, an intrusion prevention system and anti-virus software to prevent and detect any threat by computer viruses and other malicious software. Transmissions of sensitive information are encrypted to ensure confidentiality. We perform periodic compliance checks against the established information technology policies, identifying and mitigating problems that may undermine our system security. Daily backup procedures and a business continuity plan are in place to ensure continuity of our operations.

To prevent system failures risk, we have established and optimized relevant policies in building a stable IT system. We host our principal IT infrastructure at our headquarters and a same-city disaster recovery center in Shanghai, maintained by a third-party Internet data center. Our platform adopts modular architecture that consists of multiple connected components, each of which can be separately upgraded and replaced without compromising the functioning of the other components. We maintain a sufficient buffer in our processing capacity to ensure the reliability of our IT system when we experience a surge in payment volume. We believe our IT infrastructure is highly stable.

### ***Liquidity Risk***

Liquidity risk is the risk of not having sufficient funds to meet our obligations as they become due. We believe that our current and future cash flows from operations are sufficient to sustain our business growth. Our working capital needs usually arise from the purchasing of equipment, such as payment terminals, and we may obtain short-term borrowing from banks and other financial institutions.

We have implemented various measures to manage our liquidity risks. We make detailed working capital plans for our business operations and accordingly prepare adequate funds. We also closely monitor any short-term or mid- to long-term payment obligations arising from our banking

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facilities in terms of the size, maturity date and pricing so that we can prepare for payment arrangements in advance. In addition, as most our qualified merchants choose to use our same-day settlement services, we also closely monitor our daily payment and settlement volumes, especially for our same-day settlement services.

### ***Operational Risk***

Operational risk is the risk of loss resulting from operation activities, inadequate procedures or other human error.

We manage operational risk by establishing clear policies requiring that identification and reporting processes are well-documented and transactions are reconciled and monitored. We have officers responsible for overseeing our day-to-day operations, controlling and monitoring operational issues and solving problems. We have formulated a set of operating procedures for each business function to standardize our operating procedures and reduce human error.

## **INTELLECTUAL PROPERTY RIGHTS AND CORPORATE NAMES**

### **Intellectual Property Rights**

We protect our intellectual property rights through a combination of patent, copyright, trademark and other intellectual property laws as well as confidentiality agreements with our employees, suppliers, partners and others. As of December 31, 2017, we had three registered patents, 55 registered copyrights and 176 registered trademarks. As of December 31, 2017, we also owned 54 registered domain names.

In general, our employees are required to enter into a standard employment agreement which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. We did not have any material dispute or any other pending legal proceedings concerning intellectual property rights with third parties during the Track Record Period.

### **Corporate Names**

Our origins traced back to 2006 when China PnR (匯付天下有限公司), one of our Operating Entities, was incorporated under the laws of the PRC and our brand names have been well recognized in the market through years of business development. Our Company was incorporated in the Cayman Islands and named as Huifu Limited (汇付天下有限公司) in December 2017.

On February 28, 2018, our Company was registered in Hong Kong under Part 16 of the Companies Ordinance as a registered non-Hong Kong company under its corporate names, i.e., Huifu Limited in English and 汇付天下有限公司 in Chinese. In the meantime, we understood from the Registrar of Companies that our English corporate name registered under Part 16 of the Companies Ordinance was “the same as” the English name of “Hui Fu Company Limited (匯富通訊有限公司)”, another company already registered under the Companies Ordinance or the predecessor Ordinance (i.e. the Companies Ordinance (Cap 32)). We also noted that a trademark “滙付通” has been registered by another company with the Hong Kong Registrar of Trade Marks.

Therefore, we applied to the Registrar of Companies and the Registrar of Companies has approved “Huifu Payment Limited” as our business name under which we will carry on business in

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Hong Kong pursuant to section 782 of the Companies Ordinance. See “Risk Factors—Risks Relating to Our Business and Industry—The use of our English and Chinese names, English Approved Name and Chinese Corporate Name by our Company in this prospectus and in the course of trade or business in Hong Kong may be challenged due to potential third-party trademark infringement and/or passing off claims. As a result, we may not be able to benefit from our well-known brand name” for additional information. We haven’t been involved in any tradename dispute with third parties during the Track Record Period, and have taken steps to minimize the risks associated with the use of our corporate name in Hong Kong.

The issuance of the formal registration certificate of our names by Registrar of Companies will make us the only holder of “Huifu Payment Limited ”and “汇付天下有限公司”. Whilst customers of payment service are generally more careful in choosing service providers and should be able to distinguish one from another, should there be any infringement of our rights under the registered tradename resulting in our economic loss or reputational damage, we will take appropriate measures including without limitation, requests for clarification, injunctions or legal actions against the tortfeasors.

### EMPLOYEES

As of December 31, 2017, we had 943 full-time employees, the majority of whom are based in Shanghai, China. The following table sets forth the number of our employees by function as of the same day:

<u>Function</u>	<u>Number of employees</u>	<u>% of Total</u>
Research and Development .....	346	36.7%
Sales and Marketing .....	251	26.6
Operations .....	123	13.1
Legal, Compliance and Risk Management .....	72	7.6
Finance and Administration .....	151	16.0
<b>Total</b> .....	<b>943</b>	<b>100.0%</b>

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. As a result, we have a strong track record in attracting and retaining our core employees. More than 50% and 31% of our employees had prior experience in technology companies and financial institutions, respectively.

We primarily recruit our employees in China through recruitment agencies, on-campus job fairs and online channels including our corporate website and social media. As a policy, we regularly offer management, technology and other training to our employees through internal or external instructors. Our online learning platform allows our employees to learn from a variety of training resources. Our middle-level managers are encouraged to attend our mini-MBA program. We also sponsored select managers to attend MBA programs and EMBA programs in prestigious universities, as well as other professional training programs. We believe our training culture has contributed to our ability to recruit and retain qualified employees.

As required under PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans.

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We believe that we maintain a good working relationship with our employees and we have not experienced any material labor dispute or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

### COMPETITION

The markets in which we operate are competitive and evolving. Our primary competitors are other independent third-party payment service providers in China. Some of these companies have greater financial resources and larger bases of customers than we do, which may provide them with significant competitive advantages. The most significant competitive factors are features and functionality of solutions, sales capabilities, relationships with value-chain partners, pricing and brand name. In particular, the ability to enhance service and solution offerings through innovation and timely respond to the technological or other changes is critical to success in this industry. See “Risk Factors—Risks Relating to Our Business and Industry—If we fail to compete effectively, we may lose clients, which could materially and adversely affect our business, financial condition and results of operations” and “—Failure to continually enhance our service and solution offerings or timely respond to the technological or other changes in the rapidly evolving third-party payments market could jeopardize our businesses and prospects.”

#### **Our Competition with Alipay and Tenpay**

According to Frost & Sullivan, our business model and market positioning are different from those of Alipay and Tenpay, the two largest third-party payment service providers in China, whose business models are designed to primarily serve individual consumers who are generally payers, while we primarily focus on micro and small merchants and companies in select industry verticals, who are generally payees. Since Alipay and Tenpay currently do not provide customized payment solutions to industry verticals according to Frost & Sullivan, they do not compete with us in this area. Alipay and Tenpay provide services to micro and small merchants enabling them to accept digital payments through QR codes, thus a certain degree of overlap exists between their and our payment services for micro and small merchants. Considering our different business model and market positioning, we believe that our competition with Alipay and Tenpay is not material. Our Directors believe that we will remain competitive and sustainable in the third-party payments market, taking into account the following factors:

- We believe that the Alipay and Tenpay’s main purpose for expanding services to micro and small merchants is to increase the acceptances of payments through their digital wallets in more diverse payment scenarios and encourage more individual customers to choose their digital wallets over credit cards, and they assume a similar role as bank card issuers in these digital payments. On the contrary, we focus on providing payment processing and various value-added services to micro and small merchants.
- Our extensive and still growing ISO network gives us considerable competitive advantages in the large and fragmented micro and small merchant market. According to Frost & Sullivan, as of December 31, 2017, there were 81.0 million micro and small merchants in China, the number of which is still growing. However, the micro and small merchant payment service market is fragmented, with merchants in different geographic areas having different needs for payment services. In 2012, we were the first to build an ISO network for the distribution of our payment services, which gives us considerable first-mover advantage in developing a broad and effective ISO network to meet the needs of micro and small merchants. As of December 31, 2017, we served over 5.8 million

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micro and small merchants, and our third-party ISO network covered over 40% of approximately 300 prefecture-level cities in China. We also plan to increase our ISO network from over 1,800 ISOs as of December 31, 2017 to over 3,000 ISOs over the next three years, covering over 80% of the approximately 300 prefecture-level cities in China. Based on our over five years of experience in developing and managing ISOs, we have gained deep understanding of the ISOs' business operations and optimized our abilities to engage, incentivize, evaluate and monitor ISOs. We believe that we can engage micro and small merchants through our ISO network better than Alipay and Tenpay in a more cost-effective manner.

- We believe that our services are more advantageous in terms of flexibility, comprehensiveness, quality of value-added services and user experience, and can fully meet the needs of micro and small merchants. According to Frost & Sullivan, Alipay and Tenpay do not provide POS terminals to process bank card payments; their payment services are strongly exclusive to each other. As an independent third-party payment service provider, we can provide a neutral and integrated payment service for merchants, which covers all major digital payment methods such as Alipay, WeChat Pay and QuickPass, as well as bank card payment services, as a one-stop solution. In addition to providing basic payment services for merchants, we also provide value-added services such as account management, loan introduction and business intelligence for micro and small merchants, which differentiate our services from those of Alipay and Tenpay.

However, we cannot assure you that Alipay and Tenpay will not expand into customized payment solutions for industry verticals or quickly grow their payment services for micro and small merchants in the near future. See “Risk Factors—Risks Relating to Our Business and Industry—If we fail to compete effectively, we may lose clients, which could materially and adversely affect our business, financial condition and results of operations.”

### LICENSES AND PERMITS

Our Directors and our PRC Legal Advisors confirm that as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from the relevant government authorities. The following table sets forth details of our licenses and permits that are material to our businesses:

<u>License/Permit</u>	<u>Entity</u>	<u>Dates of Grant or Renew</u>	<u>Dates of Expiration</u>	<u>Description of License/Permits</u>
Payment License	PnR Data	Granted on May 3, 2011; renewed on May 3, 2016 and August 30, 2017	May 2, 2021	Payment services provided by non-bank institutions including merchant acquiring, Internet payments, mobile phone payments, fixed line phone payments.  We are licensed to offer merchant acquiring services in China, other than in Guizhou Province, Hunan Province, Shaanxi Province, Henan Province, Zhejiang Province, Chongqing, Yunnan Province, Hubei Province, Fujian Province (excluding Xiamen), Ningxia Hui Autonomous Region, Jilin Province, Heilongjiang Province, Jiangsu Province, Hainan Province and Qinghai Province. <sup>(1)</sup>

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License/Permit	Entity	Dates of Grant or Renew	Dates of Expiration	Description of License/Permits
Cross-border payment service permit (支付機構跨境外匯支付業務試點許可)	PnR Data	Granted on September 26, 2013	Based on the validity of the Payment License	This permit allows us to process cross-border payments relating to (i) sales of goods (amount of a single transaction shall not exceed US\$10,000); and (ii) overseas education, airline tickets, and hotel and accommodation (amount of a single transaction shall not exceed US\$50,000).
Cross-border Renminbi settlement permit (跨境人民幣支付業務許可)	PnR Data	Granted on February 26, 2014	Based on the validity of the Payment License	This permit allows us to conduct cross-border Renminbi-settled payment services.
Payment and settlement permit for fund sales (基金銷售支付結算許可)	PnR Data	Granted on April 19, 2010	Continuously reviewed by the CSRC	This permit allows us to conduct payment and settlement for mutual fund sales.
ICP License	China PnR	Granted on December 8, 2011; renewed on January 5, 2017	December 7, 2021	This license allows us to provide certain data-driven value-added services that are indispensable for our payment solutions.
ICP License	PnR Data	Granted on March 7, 2018	March 7, 2023	This permit allows us to provide payment service based value-added Internet information services.

(1) Also see “—Risk Management—Enterprise Risk Management—Fraud Risk.”

## INSURANCE

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain key man insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. During the Track Record Period, we did not make any material insurance claims in relation to our business. See “Risk Factors—Risks Relating to Our Business and Industry—We have limited insurance coverage and may incur losses resulting from business interruptions.”

## PROPERTIES

Our headquarters are located at Block C5 Putian Industrial Park Phase II, No. 700 Yishan Road, Xuhui District, Shanghai, the PRC.

As of December 31, 2017, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets, and none of our property activities has a carrying amount of 1% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding

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Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

### **Owned Building**

As of the Latest Practicable Date, we owned a building in Shanghai, which serves as our headquarters office, with an aggregate gross floor area of 16,618 square meters. As of the Latest Practicable Date, we had not obtained the building ownership certificate since the developer of the building is in the process of obtaining the ownership certificate. The developer of the building has filed the application for the ownership certificate, which is under processing by the relevant authority. Our PRC Legal Advisors have advised us that we have the right to occupy and use this building, although it cannot be sold or accepted by banks as security for mortgages until we obtain the building ownership certificate.

We believe that our use of this building with defective title will not materially adversely affect our business operations because this building is in safe condition since the developer obtained the construction project final acceptance certificate in October 2016 and we expect to receive the building ownership certificate in due course once the application by the developer has been accepted. We have prompted the developer to expedite its application and are closely monitoring its progress. We currently expect to obtain the building ownership certificate before the end of 2019. Our PRC Legal Advisors have advised us that there is no substantial legal impediment for the acquisition of such building ownership certificate.

### **Leased Buildings**

As of the Latest Practicable Date, we operate our business through 25 leased properties in Shanghai, Beijing, Guangzhou and various other cities in China, which serve as our offices. These properties are principally used as office premises for our business operations. We believe that there is a sufficient supply of properties in these big cities. Furthermore, even if we experience temporary interruption to our usage of any of our leased office space, we believe that our employees can continue to perform the material aspects of their duties remotely, given that our offices do not carry out any production, manufacturing or physical retail activities; and our offices in other locations can adequately support the functioning of our business operations in areas where we experience temporary office space interruptions through our technology infrastructure. Therefore, we do not rely on the existing leases for our business operations.

Our leased properties have a total gross floor area of approximately 15,393 square meters. The relevant lease agreements have lease expiration dates ranging from June 2018 to March 2023 with renewal options.

As of the Latest Practicable Date, lessors of five of our leased properties in China had not provided us with valid title certificates, valid title certificates for commercial purpose or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties. If the lessors do not have rights to rent these buildings and are challenged by the owner of these buildings, we will have to bear additional expenses, which primarily consist of relocation costs. If a relocation is required, we believe that we will be able to relocate our office premises quickly without incurring material relocation costs, given the supply of alternative properties in those major cities offering similar rents and facilities.

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Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not obtained any lease registration for the 23 properties we leased in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that the unregistered leases are registered. Our PRC Legal Advisors have advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under PRC laws, and have also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB230,000.

### **LEGAL AND REGULATORY PROCEEDINGS AND COMPLIANCE**

#### **General**

We may from time to time become a party to various legal, arbitration or administrative proceedings arising from the ordinary course of business.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation.

#### **Regulatory Inspections**

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, primarily PBOC and its respective local branches. During the Track Record Period and up to the Latest Practicable Date, certain areas of our business practices were found by the PBOC Shanghai branch to be not in full compliance with regulatory requirements, for which we received administrative penalties. However, as confirmed by our PRC Legal Advisors, the regulatory non-compliances disclosed below are not material and do not have any material adverse effect on our business, prospects, financial condition and results of operations, or this Global Offering.

We have taken the following actions to avoid re-occurrence of any similar non-compliance incidents: (i) implemented measures to rectify the non-compliances immediately upon becoming aware of them; and (ii) carefully investigated each non-compliance and implemented a series of remedial measures, supervision mechanisms and policies to strengthen our internal controls or risk management system. No objections have been raised and no follow-up actions have been taken by the PBOC Shanghai branch against the rectification reports or remedial measures taken by us in relation to the non-compliances disclosed below.



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We set out below the details of our regulatory non-compliances, explanations and the remedial measures adopted during the Track Record Period:

### Non-compliances

In January 2016, the PBOC Shanghai branch conducted an inspection on our merchant payment business for 2015 and identified certain areas that were not in full compliance with the Measures for Administration of Anti-Money Laundering and Anti-Terrorism Financing by Payment Institutions (《支付機構反洗錢和反恐怖融資管理辦法》), including: (i) failure to complete the know-your-customer procedures to obtain basic information concerning certain merchants, the *de facto* controllers and beneficiary owners of certain merchants, as well as properly evaluating money laundering risks of merchants based on their business nature and transaction characteristics; (ii) failure to keep a record of certain clients' identity information and the transaction records; and (iii) failure to effectively analyze transactions of certain merchants based on their business nature and transaction characteristics, and three reports regarding certain suspicious transactions submitted to the PRC Anti-Money Laundering Monitoring and Analysis Center (中國反洗錢監測分析中心) were incomplete.

As required by the PBOC Shanghai branch, we submitted a report to such authority in January 2016. On May 4, 2016, after reviewing our report, the PBOC Shanghai branch imposed a fine of RMB350,000 on us.

In June 2016, we fully paid the fine. Since then, we have not received any follow-up comment on this incident from the PBOC Shanghai branch, and we have passed all subsequent anti-money-laundering inspections conducted by the PBOC.

### Explanations, remedial measures and enhanced internal controls

Immediately after this incident, we completed a comprehensive review of our internal controls concerning anti-money laundering. These non-compliances occurred because we had not fully implemented the appropriate system and were still in the process of developing and improving our anti-money laundering monitoring system at the time of the regulatory inspection, as third-party payment service providers in China were exploring the best practice for monitoring money laundering risk at the time.

In January 2016, we implemented a number of measures to enhance our internal controls concerning money laundering risk and to prevent recurrence of such non-compliance:

(i) we strengthened our know-your-customer procedures by deploying additional systems for merchant name screening against the list of high-risk businesses reviewing additional information regarding the merchants' businesses, in particular information on their websites, and identifying merchants' *de facto* controllers and beneficiary owners through analyzing similarities in patterns found in different merchants' identifiable information. Additionally, we upgraded our merchant risk rating system to manage merchants' money laundering risk according to their money laundering risk profiles;

(ii) we started to collect additional details of merchants' identities and transaction information for risk monitoring purposes and enhanced record keeping measures;

(iii) we enhanced our anti-money laundering monitoring system and improved our suspicious transaction risk management in terms of monitoring, analyzing and reporting. Specifically, we enhanced evaluation of suspicious transactions based on a merchant's business nature and transaction characteristics, using our data analytics capability to conduct correlation analysis of the suspicious transaction information we obtained. We also enhanced our technologies to capture more details for our future reports of suspicious transactions to the PRC Anti-Money Laundering Monitoring and Analysis Center; and

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### Non-compliances

In January 2016, the PBOC Shanghai branch conducted an inspection of our management of client reserve funds and identified certain areas that were not in full compliance with the Notice of PBOC on Establishing the Client Reserve Funds Information Verification Mechanism for Payment Institutions (《中國人民銀行關於建立支付機構客戶備付金資訊核對校驗機制的通知》), Administrative Measures for the Payment Services of Non-financial Institutions (《非金融機構支付服務管理辦法》) and Measures for Deposit of Client Reserve Funds of Payment Institutions (《支付機構客戶備付金存管辦法》), including: (i) opening a depository account in a commercial bank not qualified as a depository bank; (ii) failure to keep the ratio of China PnR's paid-in registered capital to our daily average balance of client reserve funds for the preceding quarter to 10% or more; and (iii) inter-bank payments were made from one of our designated accounts for the payment and settlement of client reserve funds in January 2016, which operations are not permitted for this type of account. See "Regulatory Environment—Regulations on payment service of non-financial institutions—Regulations on the Management of Client Reserve Funds."

After the inspection by the PBOC Shanghai branch, we conducted a comprehensive review of our business practice concerning client reserve funds and submitted a rectification report to such authority in May 2017.

On August 21, 2017, after considering the ratification report we submitted, the PBOC Shanghai branch imposed a fine of RMB60,000 on us.

We fully paid the fine in August 2017. Since then, we have not received any follow-up comment on this incident from the PBOC Shanghai branch.

### Explanations, remedial measures and enhanced internal controls

(iv) we improved our employees' awareness of active compliance and provided regular training and tests on money laundering risk to our senior managers, sales force, operating staff and risk management personnel. Specifically, our sales force must pass anti-money laundering tests before they can acquire clients.

The non-compliance regarding opening deposit account with an unqualified depository bank was mainly due to the omission of our employees. In January 2016, we closed this depository account. Immediately after this, we established a stricter review process on depository bank qualifications to enhance internal controls and provided employee training on selecting qualified depository banks.

The non-compliance regarding the ratio of PnR Data's paid-in registered capital to our daily average balance of client reserve funds was mainly due to a long waiting period for us to increase PnR Data's registered capital to meet the needs of our rapidly growing business. Before we were fined for this non-compliance, in October 2016, we submitted an application to the PBOC to increase the registered capital of PnR Data from RMB100 million to RMB200 million. We completed this capital increase in May 2018. In addition, we have enhanced our internal control to (i) dynamically monitor our daily average balance of client reserve funds; (ii) track and predict our future business needs and scale of our client reserve funds; and (iii) plan our capital increase if necessary in advance.

The non-compliance regarding the inter-bank payments with improper type of depository accounts was mainly because we are required by the CSRC to conduct our mutual fund payment services, including processing both inter-bank and intra-bank payments, through one designated account that is independent of all other payment services, which is inconsistent with the PBOC's regulation on depository accounts which limits our designated account to process only intra-bank payments. We were unable to rectify this technical non-compliance because it is commercially impracticable for us to only process intra-bank payments for our payment services for funds sales. Our PRC Legal Advisors confirmed that this non-compliance is not material and will not have material adverse

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## BUSINESS

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### Non-compliances

In 2015, the PBOC Shanghai branch conducted an inspection of our merchants and identified certain areas of our merchant payment business that were not in full compliance with the Administrative Measures on Bank Card Acquiring Business (《銀行卡收單業務管理辦法》) that happened between January and July 2013, as well as between October 2013 and January 2014: (i) failure to properly review certain merchants' signup materials; (ii) failure to properly deploy mobile POS terminals and failure to properly collect payment terminals from certain merchants no longer in business relationships with us; (iii) assigning inaccurate merchant category codes to certain merchants and allowing them to enjoy low processing fee rates; (iv) failure to effectively monitor and manage our ISOs, which caused us to accept certain merchant signups based on incomplete or fraudulent information; (v) improper set up of individual bank accounts as settlement accounts for certain corporate merchants; and (vi) failure to establish an effective risk monitoring system to identify suspicious transactions and prevent fraudulent transactions.

On April 10, 2015, the PBOC Shanghai branch imposed a fine of RMB60,000 on us. On April 15, 2015, we submitted a rectification report to the PBOC Shanghai branch.

In June 2015 we fully paid the fine. Since then, we have not received any follow-up comment on this incident from the PBOC Shanghai branch.

### Explanations, remedial measures and enhanced internal controls

impact on our business operation, and is unlikely to subject us to material fine or have our payment business license revoked. According to our consultation with PBOC Shanghai branch, the non-compliance regarding inter-bank payments is unlikely to have a material adverse impact on us.

These non-compliant business practices arose mainly because we were still in the process of developing and improving our merchant management system at the time of the inspection, and failed to effectively comply with the regulatory requirements in relation to merchant management.

In April 2015, we implemented a number of measures to enhance our internal controls over merchant management and to prevent recurrence of such non-compliance:

(i) we conducted thorough examinations on the signup materials of our existing merchants and strengthened our management of merchants' real-name registration. In addition, we strengthened our review of merchant signup by using the authentication database of the SAIC and Ministry of Public Security in our review system and conducting regular on-site inspections;

(ii) we stopped providing mobile POS terminals for merchants not qualified for this service;

(iii) we conducted a nationwide review of merchants with low processing fee rates or cap fees and terminated our business with non-qualified merchants, and conducted more frequent examinations and interviews with our merchants;

(iv) we enhanced our management of the ISO network by improving our ISO evaluation and admission system, requiring ISOs to provide risk-related deposits and conduct regular assessment of their sales agents;

(v) we suspended our payment services for corporate merchants who used their personal bank accounts; and

(vi) we improved our risk monitoring system to be capable of identifying suspicious transactions and fraudulent transactions on a real-time basis;

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## BUSINESS

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### Non-compliances

### Explanations, remedial measures and enhanced internal controls

assigned different limits on the amounts of transactions and numbers of transactions according to the merchants' risk profiles, and built a risk database to collect and analyze transaction data and merchant data.

## HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Due to the nature of our business, we do not currently have any material liabilities relating to health, work safety and environment and do not expect we will incur any material liabilities in these regards which could have any material adverse impact on our business and operating results. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

## DATA PRIVACY MATTERS

The protected data regarding our merchant clients and their customers can be divided into the following three categories:

- *Merchants Identification Information*: our clients mainly comprise merchants and we are obligated to collect their merchant identification information, such as address, contact information, business license and operating license, to fulfill our know-your-customer responsibilities. ISOs also have access to the identification information of merchants they develop. UnionPay also has access to merchants' identification information, as the PRC laws and regulations require merchants to register their identification information with UnionPay.
- *Merchant and Customer Transaction Information*: we, as well as UnionPay, process non-sensitive transaction information regarding the customers of our merchant clients, such as the name, merchant category, payment time, location, amount, channel, type and terminal of the transaction, identity certification and transaction authorization information of the customers, and are required by the PRC laws and regulations to store this information for five years. However, ISOs do not have access to this information.
- *Sensitive Information*: we transmit sensitive payment information entered by the customers of our merchant clients, such as Card Verification Value, or CVV code and payment password to issuing banks for authorization through UnionPay, but neither we nor UnionPay is permitted to access or store such information. Merchants are not allowed to store such information, and ISOs or other business partners have no access to such information.

The PRC government has various regulations restricting companies from collecting and using protected data. See "Regulatory Environment—Regulations on value-added telecommunication business—Regulations on information security and privacy protection." We are obliged to keep protected customer information confidential. We do not collect and use protected data except for the purpose of compliance and risk management, or otherwise required by the law. For example, customers of Internet finance providers who use our account management services are required to provide us with consent when opening their accounts in our system so that we can access their authentication information.

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## BUSINESS

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We have an information security handbook and conduct regular staff training on information security and protection obligations and the consequences of violations. For employees who violates the confidentiality rules, we take measures such as warnings, penalties, and dismissal. We have a dedicated information security team consisting of seven experienced professionals as of the Latest Practicable Date. We continually improve and enhance our data and system security through routine inspections and timely upgrades of our data management system to deal with new data security threats.

From the technical aspect, we take measures such as sensitive data encryption and tokenization to solve the problem of data leakage. Furthermore, we set different information access permission scopes for different positions, limiting employees' information access to the minimum scope. Our data security and management abilities have been recognized by the following certifications and evaluation results obtained in 2017: (i) the Level 3 Certification of Information System Protection, which is the information security evaluation required by the Ministry of Public Security, (ii) the Safety Certification on Payment Facilities for Non-Financial Institution, which is a prerequisite imposed by the PBOC, (iii) the Account Data Security Standard evaluation in April 2017, which is promulgated by the UnionPay Risk Management Committee focusing on cardholder account safety, and (iv) the Payment Card Industry Data Security Standard certification, which is administered by the Payment Card Industry Security Standards Council, representing our fulfillment of a series of information security requirements for, among others, external data transferring confidentiality, internal access restriction and customer data leakage risk management.

Our PRC Legal Advisors have advised us that we are in compliance with the relevant PRC laws and regulations concerning collection and use of protected data.

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## CONTRACTUAL ARRANGEMENTS

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### PRC REGULATORY BACKGROUND

#### Background

We are a leading independent third-party payment service provider in China, focusing on merchant payment and fintech enabling services. Our Operating Entities are primarily engaged in offering (i) merchant payment services, including POS, Internet payment, mobile POS, mobile payment and cross-border payments services, and (ii) fintech enabling services in China (collectively, the “**Relevant Businesses**”). As advised by our PRC Legal Advisors, in order to conduct the Relevant Businesses, our Operating Entities are required to hold several licenses and permissions, in particular, the ICP License and Payment License.

Foreign investment activities in China are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the “**Catalog**”), which has been promulgated and amended from time to time jointly by the MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). Our value-added telecommunication services include fintech enabling services (such as risk management services, business intelligence services and certain data-driven value-added services), and our PRC Legal Advisors confirm that we are required to hold an ICP License in order to conduct such value-added telecommunication services, a sector where foreign investment is subject to restriction according to the Catalog. According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business. According to the consultation on February 1, 2018 with Shanghai Communications Administrations (上海市通信管理局) (the “**ICP Authority**”), which is the authority in charge of accepting applications for the operation of Internet information services as well as the supervision and guidance of market access to telecom Internet services in Shanghai in accordance with PRC laws and regulations, the ICP Authority was not aware of any case in which applications for ICP Licenses by sino-foreign equity joint ventures had been approved in Shanghai, and the application (if any) for an ICP License by a sino-foreign equity joint venture to be established by our Company would not be approved. Our PRC Legal Advisors are of the view that the ICP Authority is the competent authority and the officer of the ICP Authority is competent to give the relevant confirmations and it is unlikely that the confirmations will be challenged by higher government authorities. From the perspective of operating our existing business in a manner that is in compliance with applicable PRC laws and regulations, based on the current policy of the relevant PRC government authorities and as advised by our PRC Legal Advisors, our Company is currently unable to establish a sino-foreign equity joint venture to obtain an ICP License, and accordingly, our Company cannot hold a shareholding interest in the Operating Entities, which hold the license and permit required for our fintech enabling services.

Furthermore, according to the Administrative Measures for the Payment Services of Non-financial Institutions (the “**Measures**”), to provide payment services, a non-financial institution shall qualify as a payment institution by obtaining the Payment License pursuant to the Measures. Payment services as mentioned in the Measures refer to all or part of the following monetary capital transfer services by non-financial institutions as intermediaries between payees and payers: (i) network payments, (ii) issuance and acceptance of prepaid cards, (iii) bank card acquiring, and (iv) other payment services as specified by the PBOC. Article 9 of the Measures further provides that the business scope of foreign-invested payment institutions, the qualifications and contribution ratio of overseas capital contributors shall be separately stipulated by the PBOC and reported to the State Council for approval. On March 19, 2018, the PBOC issued “Announcement No.7 of the People’s

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## CONTRACTUAL ARRANGEMENTS

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Bank of China (2018)” (《中國人民銀行公告 (2018) 第7號》) (the “**No.7 Announcement**”) and the “PBOC’s Replies to Journalists’ Questions relating to Entry and Regulatory Policies on Foreign-invested Payment Institutions” (《中國人民銀行就外商投資支付機構准入和監管政策有關問題答記者問》), pursuant to which, foreign institutions may be granted the Payment License, subject to the conditions and procedures stipulated under the Measures. As confirmed by our PRC Legal Advisors, (i) the Payment License held by PnR Data will not be affected by the issue of No.7 Announcement; and (ii) the No. 7 Announcement only set out the general requirements for newly application of Payment Licenses by foreign institutions, but has not promulgated any detailed requirements and measures for the implementation of the change of domestic institutions which have obtained Payment Licenses into foreign-invested payment institutions. According to the consultation on March 9, 2018 with the PBOC (the “**Payment Authority**”), which is the authority in charge of third-party payment business administration in accordance with PRC laws and regulations, the Payment Authority confirmed that it has not granted any Payment Licenses to sino-foreign equity joint ventures. Furthermore, the Payment Authority does not object to seeking listings in offshore securities markets by adoption of the Contractual Arrangements. Our PRC Legal Advisors confirmed that the Payment Authority is the competent authority and the officer of the Payment Authority is competent to give the relevant confirmation and it is unlikely that the confirmation will be challenged by higher government authorities. Considering the short interval between the consultation and the issue of the No.7 Announcement, our Company and the PRC Legal Advisors believe that the Payment Authority’s confirmation above was made taking into account the potential issue of the No.7 Announcement and the Company’s situations. From the perspective of operating our existing business in a manner that is in compliance with applicable PRC laws and regulations, given the current policy of the relevant PRC government authorities and as advised by our PRC Legal Advisors, our Company is currently unable to hold a shareholding interest in the Operating Entities, which hold the license and permit required for its payment service business. Before detailed rules regarding changing of domestic institutions which have obtained Payment Licenses into foreign-invested payment institutions are promulgated by PBOC, our Company has, based on advice from our PRC Legal Advisors, assessed the requirements under all current applicable rules and have implemented all measures to the extent applicable. Our Company undertakes that, after the PBOC promulgates detailed rules regarding changing of domestic institutions which have obtained Payment Licenses into foreign-invested payment institutions and accepts and approves relevant applications in practice, and as soon as we are required by the PBOC to adjust our corporate structure, we will make necessary adjustments to our corporate structure and business structure accordingly so as to comply with the then applicable PRC laws and regulations.

In order for our Company, as a foreign investor under the current regulatory regime, to maintain its business operations while complying with the PRC laws and regulations mentioned above, since March 2007, we, through PnR Network (the “**WFOE**”), have entered into a set of contractual arrangements (the “**Old Contractual Arrangements**”) with the Operating Entities and the Registered Shareholders, which have been amended as necessary, with the latest amendment in June 2015. The Old Contractual Arrangements allowed the Company to exercise control over the business operation of our Operating Entities and enjoy all the economic interests derived therefrom.

In preparation for the Listing and upon the completion of the Reorganization, the WFOE, China PnR and the Registered Shareholders entered into the Contractual Arrangements on March 2, 2018, which superseded the Old Contractual Arrangements. The details of the Contractual Arrangements are further elaborated in “—Our Contractual Arrangements” below. Our PRC Legal Advisors and our Directors are of the view that the Contractual Arrangements are narrowly tailored for the reasons mentioned above.

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## CONTRACTUAL ARRANGEMENTS

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For further details of the limitations on foreign ownership in PRC companies conducting the Relevant Businesses under PRC laws and regulations, see “Regulatory Environment—Regulations on Payment Service of Non-financial Institutions”, “Regulatory Environment—Regulations on Value-added Telecommunication Business” and “Regulatory Environment—Regulations on Value-added Telecommunication Business—Regulations on Restraining the Foreign Investment on Value-added Telecommunication Business.”

### QUALIFICATION REQUIREMENTS UNDER THE FITE REGULATIONS

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including Internet information services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance on or interpretation of the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirements. Our PRC Legal Advisors have advised that as of the Latest Practicable Date, (i) this guidance memorandum has no legal or regulatory effect under the PRC laws; and (ii) none of the applicable PRC laws, regulations or rules has provided clear guidance on or interpretation of the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have built up our track record of overseas telecommunications business operations for the purposes of being qualified, to acquire the entire equity interests in the Operating Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China.

We have implemented a series of measures in order to establish and accumulate overseas operation experience, including:

- (i) we have set up a subsidiary in Hong Kong for the expansion of overseas operations;
- (ii) we have set up our overseas website, primarily for marketing and investor relations purposes. We will utilize this website to help overseas investors to better understand our service and business, and the website will have links to redirect the users to our domestic website. Through this overseas website, we can capture and analyze overseas user data in order to provide helpful insights for our overseas expansion plans; and
- (iii) we have commenced feasibility studies on overseas markets as part of our marketing initiatives.



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## CONTRACTUAL ARRANGEMENTS

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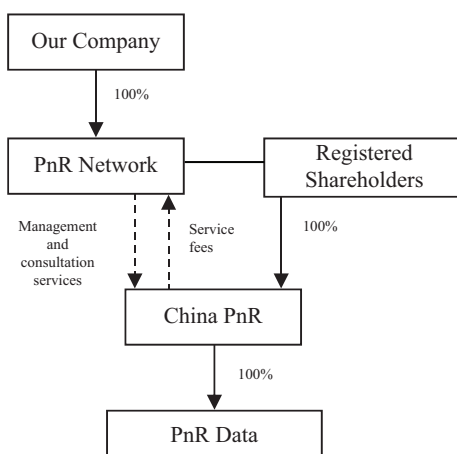
According to the consultation on February 1, 2018 with the ICP Authority, the officer of the ICP Authority confirmed that there had been no further development on the relevant policy in relation to the Qualification Requirement, and any application by a foreign investor to invest in a value-added telecommunications business in the PRC would be subject to a substantive examination by the ICP Authority in accordance with the approval procedures under PRC laws and regulations. According to our consultation on April 8, 2018 with the MIIT, the above steps taken by the Company to establish and accumulate overseas operation experience are factors to prove that the Qualification Requirements are fulfilled, and the above steps taken by the Company are reasonable, appropriate and sufficient in relation to the Qualification Requirement. Based on the above and our PRC Legal Advisors' understanding of the businesses that we operate, our PRC Legal Advisors are of the view that, subject to the discretion of the competent authority on whether we have fulfilled the Qualification Requirements, the above steps taken by us are reasonable, appropriate and sufficient in relation to the Qualification Requirements.

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

### OUR CONTRACTUAL ARRANGEMENTS

#### Overview

The following simplified diagram illustrates the flow of economic benefits from our Operating Entities to our Group stipulated under the Contractual Arrangements, details of which are set out in the sub-section headed “—Our Contractual Arrangements—Summary of the agreements under the Contractual Arrangements” in this section:



*Notes:*

1. “—▶” denotes direct legal and beneficial ownership in the equity interest.
2. “- -▶” denotes contractual relationship.
3. “——” denotes the control by the WFOE over the Registered Shareholders and the Operating Entities through (1) powers of attorney to exercise all shareholders' rights in China PnR, (2) exclusive options to acquire all or part of the equity interests in China PnR and (3) equity pledges over the equity interests in China PnR.

We believe that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC.

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## CONTRACTUAL ARRANGEMENTS

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Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into among the parties thereto; (ii) by entering into the Exclusive Business Cooperation Agreement with WFOE, our Operating Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

### **Summary of the agreements under the Contractual Arrangements**

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

#### ***Exclusive Business Cooperation Agreement***

Pursuant to the exclusive business cooperation agreement dated March 2, 2018 between China PnR and the WFOE (the “**Exclusive Business Cooperation Agreement**”), the WFOE agreed to be engaged as the exclusive provider to the Operating Entities of technical support, consultation and other services for a monthly service fee, including the following services:

- the use of any relevant software and trademarks legally owned by the WFOE;
- development, maintenance and updating of software in respect of the Operating Entities’ businesses;
- design, installation, daily management, maintenance and updating of network systems, hardware and database design;
- providing technical support and professional training services to relevant staff of the Operating Entities;
- providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign-owned enterprises are prohibited from conducting under PRC laws);
- providing business management consultation;
- providing marketing and promotional services;
- providing customer order management and customer services;
- providing relevant investment, financing and risk control services;
- providing financial and legal consultative support services;
- assisting China PnR with the transfer, leasing and disposal of equipment and properties; and
- other relevant services requested by the Operating Entities from time to time to the extent permitted under PRC laws.

Under the Exclusive Business Cooperation Agreement, the service fee shall be of reasonable prices in accordance with the nature of the services, shall be further stipulated in separate service agreements, and shall consist of 100% of the total consolidated profit of the Operating Entities, after deduction of any accumulated deficit of the Operating Entities in the preceding financial year(s), working capital, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the

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## CONTRACTUAL ARRANGEMENTS

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WFOE may adjust the scope and amount of service fees according to PRC tax law and tax practices, and China PnR will accept such adjustments. The WFOE shall calculate the service fees on a monthly basis and issue a corresponding value-added tax invoice to China PnR at the tax rate stipulated by current PRC laws regarding value-added tax. Notwithstanding the payment arrangements in the Exclusive Business Cooperation Agreement, the WFOE may adjust the payment time and payment method, and the China PnR will accept any such adjustment.

In addition, absent the prior written consent of the WFOE, during the term of the Exclusive Business Cooperation Agreement, with respect to the services subject to the Exclusive Business Cooperation Agreement and other matters, the Operating Entities shall not directly or indirectly accept the same or any similar services to be provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreement with any third party. The WFOE may appoint other parties, who may enter into certain agreements with the Operating Entities, to provide the Operating Entities with the services under the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement also provided that the WFOE has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the Operating Entities during the performance of the Exclusive Business Cooperation Agreement.

The validity period of the Exclusive Business Cooperation Agreement commenced from January 1, 2015, and it shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreement; (b) in writing by the WFOE; or (c) if renewal of the expired business period of either the WFOE or China PnR is denied by relevant government authorities, at which time the Exclusive Business Cooperation Agreement will terminate upon expiration of that business period.

### *Exclusive Option Agreement*

Pursuant to the exclusive option agreement dated March 2, 2018 among China PnR, the WFOE and the Registered Shareholders (the “**Exclusive Option Agreement**”), the Registered Shareholders irrevocably agreed to grant the WFOE an exclusive right to acquire, or designate one or more persons to acquire, from the Registered Shareholders any or all their equity interests then held in China PnR, in whole or in part at any time, for a total consideration of RMB100 million, which is equivalent to the total loans owed to the Registered Shareholders by the WFOE. If the WFOE exercises its option right to acquire part of equity interests held by certain Registered Shareholder(s) in China PnR, the purchase price shall be calculated in proportion to the equity interests being transferred). Furthermore, where the above purchase prices are higher than the lowest price permitted by the then PRC laws at the time of exercising options, the lowest price permitted by PRC laws, regulations and relevant rules shall be applied. China PnR and the Registered Shareholders, among other things, have covenanted that:

- without the prior written consent of the WFOE, they shall not in any manner supplement, change or amend the constitutional documents of the Operating Entities, increase or decrease the Operating Entities’ registered capital, or change the structure of the Operating Entities’ registered capital in other manner;
- they shall maintain the Operating Entities’ corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating the Operating

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## CONTRACTUAL ARRANGEMENTS

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Entities' business, and handling the Operating Entities' affairs. The annual budgeting and final accounting of the Operating Entities shall obtain the prior written consent of the WFOE;

- without the prior written consent of the WFOE, they shall not at any time following the date when the Exclusive Option Agreement came into effect sell, transfer, pledge or dispose of in any manner the equity shares of subsidiaries of China PnR, or allow the encumbrance thereon of any security interest;
- without the prior written consent of the WFOE, they shall not at any time following the date when the Exclusive Option Agreement came into effect sell, transfer, pledge or dispose of in any manner any material assets of the Operating Entities or legal or beneficial interest in the material business or revenues of the Operating Entities of more than RMB3,000,000, or allow the encumbrance thereon of any security interest;
- without the prior written consent of the WFOE, the Operating Entities shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan and/or debt between the Operating Entities and their subsidiaries;
- the Operating Entities shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect their operating status and asset value;
- without the prior written consent of the WFOE, they shall not cause the Operating Entities to execute any material contract, except the contracts executed in the ordinary course of business;
- without the prior written consent of the WFOE, they shall not cause the Operating Entities to provide any person with any loan or credit, except for those provided by the Operating Entities to the Operating Entities' wholly owned subsidiaries;
- they shall provide the WFOE with information on the Operating Entities' business operations and financial condition at the request of the WFOE;
- if requested by the WFOE, they shall procure and maintain insurance in respect of the Operating Entities' assets and business from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- without the prior written consent of the WFOE, they shall not cause or permit the Operating Entities to merge, consolidate with, acquire or invest in any person;
- they shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Operating Entities' assets, business or revenue;
- to maintain the ownership by the Operating Entities of all of the Operating Entities' assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- without the prior written consent of the WFOE, the Operating Entities shall not in any manner distribute dividends to the Operating Entities' shareholders, provided that upon the written request of the WFOE, the Operating Entities shall immediately distribute all distributable profits to their shareholders;

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## CONTRACTUAL ARRANGEMENTS

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- at the request of the WFOE, they shall appoint any persons designated by the WFOE as the directors, supervisors (if applicable) and senior management of the Operating Entities;
- without the written consent of the WFOE, the Operating Entities shall not engage in any business in competition with the WFOE or its affiliates; and
- unless otherwise mandatorily required by PRC laws, the Operating Entities shall not be dissolved or liquidated without the prior written consent of the WFOE.

In addition, the Registered Shareholders, among other things, have covenanted that:

- without the written consent of the WFOE, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in China PnR, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreement and the interests prescribed in the Powers of Attorney, and procure the shareholders' meeting and/or the board of directors of China PnR not to approve such matters;
- for each exercise of the equity purchase option, to cause the shareholders' meeting and/or the board of directors of China PnR to vote on the approval of the transfer of equity interests and any other action requested by the WFOE;
- they shall relinquish the pre-emptive right (if any) he or she is entitled to in relation to the transfer of equity interest by any other shareholders to China PnR and give consent to the execution by each other shareholder of China PnR with the WFOE and China PnR exclusive option agreement, equity interest pledge agreements and powers of attorney similar to the Exclusive Option Agreement, the Equity Pledge Agreement and the Powers of Attorney, and accept not to take any action in conflict with such documents executed by the other shareholders; and
- each of the Registered Shareholders will transfer to the WFOE or its appointee(s) by way of gift any profit, dividend or proceeds they receive from the liquidation of the Operating Entities in accordance with the PRC law.

The Registered Shareholders have also undertaken that, subject to the relevant laws and regulations, they will return to the WFOE any consideration they receive in the event that the WFOE exercise the options under the Exclusive Option Agreement to acquire the equity interests in the Operating Entities.

The validity period of the Exclusive Option Agreement commenced from January 1, 2015 and it shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders or their successors or the transferees in China PnR have been transferred to the WFOE or their appointee(s).

### *Equity Pledge Agreements*

Pursuant to the equity pledge agreement dated March 2, 2018 entered into between the WFOE, China PnR and each of the Registered Shareholders (collectively, the “**Equity Pledge Agreements**”), the Registered Shareholders agreed to pledge all their respective equity interests in China PnR that they own, including any interest or dividend paid for the shares, to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of China PnR took effect upon the completion of the change of registration with the relevant administration for industry and commerce and shall remain valid until

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## CONTRACTUAL ARRANGEMENTS

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after all the contractual obligations of the Registered Shareholders and China PnR under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and China PnR under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreement), unless such default is cured within 20 days following the Registered Shareholders or China PnR's receipt of the written notice which requests the cure of such default, the WFOE shall have the right to exercise all such rights as a secured party under any applicable PRC law and the Equity Pledge Agreements, including without limitation, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

We completed the change of registration of the Equity Pledge Agreements on March 28, 2018 as required by the relevant PRC laws and regulations.

### ***Powers of Attorney***

Each of the Registered Shareholders has executed a power of attorney dated March 2, 2018 (collectively, the "**Powers of Attorney**"). pursuant to which each of the Registered Shareholders irrevocably appointed the WFOE and its designated persons (including but not limited to the Directors and their successors and liquidators replacing the Directors but excluding those who are non-independent or who may give rise to conflict of interests) as his or her attorney-in-fact to exercise on his or her behalf, and agreed and undertook not to exercise without such attorney-in-fact's prior written consent, any and all right that he or she has in respect of his or her equity interests in China PnR, including without limitation:

- to attend shareholders' meetings of China PnR and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder;
- to file documents with the relevant registrar of companies;
- to exercise all the shareholder's rights and the shareholder's voting rights in accordance with law and the constitutional documents of China PnR, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in China PnR; and
- to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of China PnR.

Each of the Registered Shareholders has undertaken that he or she will not directly or indirectly participate in, engage in, involve in, own or be interested in any business which potentially competes with the WFOE or its affiliates.

Further, the Registered Shareholders have been in compliance with Powers of Attorney since January 1, 2015 and shall remain effective for so long as he or she holds an equity interest in the Operating Entities.

### ***Confirmations and Undertakings from the Registered Shareholders***

Each of the Registered Shareholders has confirmed and undertaken to the effect that in the event of his or her death, incapacity, divorce or any other event which causes his or her inability to exercise his or her rights as a shareholder of China PnR, his or her successors, debtor, spouse or any

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other persons entitled to claim rights or interests in the Operating Entities (together with any other interests therein) will not take any actions in any circumstances in any way, if such actions are likely to affect or prevent such Registered Shareholder and/or the WFOE from performing their obligations under the Contractual Arrangements. Each of the Registered Shareholders has confirmed that (i) his or her spouse does not have the right to claim any interests in the Operating Entities (together with any other interests therein); (ii) his or her direct or indirect day-to-day management and voting matters are not affected by his or her spouse such properties or interests; and (iii) in the event of his or her divorce, he or she will take actions necessary to safeguard the performance of the Contractual Arrangements.

### *Spouse undertakings*

The spouse of each of the Registered Shareholders, where applicable, has signed a letter of agreement (collectively, the “**Spouse Undertakings**”) to the effect, among others, that:

- (i) each spouse confirmed and agreed that the respective Registered Shareholder’s existing and future equity interests in China PnR (together with any other interests therein) are separate properties of the Registered Shareholder and do not fall within the scope of communal properties of such Registered Shareholder and his or her spouse; the respective Registered Shareholder is entitled to deal with his or her own equity interests and any interests therein in China PnR in accordance with the Contractual Arrangements. The spouse of each of the Registered Shareholder confirmed that he or she will fully assist with the performance of the Contractual Arrangements at any time;
- (ii) each spouse unconditionally and irrevocably waives any right or benefits on such equity interests and assets in accordance with applicable laws and confirms that he or she will not have any claim on such equity interests and assets; and he or she has not and does not intend to participate in the operation and management or other voting matters of China PnR;
- (iii) each spouse confirmed that the respective Registered Shareholder may further amend or terminate the Contractual Arrangements or enter into other alternative documents without the need for authorization or consent by the spouse; and
- (iv) each spouse will enter into all necessary documents and take all necessary actions to ensure the due performance of Contractual Arrangements as amended from time to time.

Our PRC Legal Advisors are of the view that (i) the above arrangements provide protection to our Group even in the event of the death or divorce of any Registered Shareholder and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and the WFOE or our Company can still enforce their rights under the Contractual Arrangements against the Registered Shareholders.

### *Other key terms thereunder*

#### *Dispute resolution*

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai International Economic and Trade Arbitration Commission (the “**SHIAC**”) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the

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language used during the arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that subject to the requirements under PRC laws, the arbitral tribunal may award remedies over the shares or assets of our Operating Entities or assets of the Registered Shareholder (as the case may be) or injunctive relief (e.g. limiting the conduct of business, limiting or restricting the transfer or sale of shares or assets) or order the winding up of our Operating Entities; the WFOE may apply to the courts of the PRC, Hong Kong, the Cayman Islands (being the place of incorporation of our Company), and the places where the principal assets of the WFOE or our Operating Entities are located for interim remedies or injunctive relief.

However, our PRC Legal Advisors have advised that the above provisions may not be enforceable under PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Operating Entities pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. Even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that the Operating Entities or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Operating Entities and conduct our business could be materially and adversely affected. See “Risk Factors—Risks Relating to our Contractual Arrangements.”

### *Arrangements to address potential conflict of interest*

Each of the Registered Shareholders has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed “—Our Contractual Arrangements—Summary of the agreements under the contractual arrangements—Powers of attorney” above.

### *Loss sharing*

Under the relevant PRC laws and regulations, none of our Company and the WFOE is expressly legally required to share the losses of, or provide financial support to, our Operating Entities. Further, each of our Operating Entities is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. The WFOE intends to continuously provide to or assist our Operating Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through the Operating Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Operating Entities suffer losses.

However, as provided in the Exclusive Option Agreement, without the prior written consent of the WFOE, China PnR shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of the equity shares of Operating Entities, or allow the encumbrance thereon of any security



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interest; (ii) sell, transfer, pledge or dispose of in any manner any of their material assets of more than RMB3,000,000; (iii) execute any material contract, except those entered into in the ordinary course of business; (iv) provide any loan, credit or guarantees in any form to any third party, or allow any third party to create any other security interests on its assets or equity, except for those provided by the Operating Entities to their wholly owned subsidiaries; (v) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (vi) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; (vii) increase or reduce its respective registered capital, or alter the structure of its registered capital in any other way, or amend its articles of association; (viii) conduct any act or act of omission that may adversely affect its operation condition or value of assets; (ix) distribute any dividends to the Registered Shareholders; (x) conduct any business that competes with the business of the WFOE or its affiliates; or (xi) liquidate or dissolve. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from the Operating Entities can be limited to a certain extent.

### *Liquidation*

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders shall give the proceeds they received from liquidation as a gift to the WFOE or its designee(s) to the extent permitted by the PRC laws.

### *Insurance*

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### *Company's confirmation*

As of the Latest Practicable Date, the Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Operating Entities under the Contractual Arrangements.

### **Circumstances under which we will adjust or unwind the Contractual Arrangements**

We will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority accepts applications for the ICP License and/or the Payment License made by sino-foreign equity joint ventures or wholly owned foreign investment entities under relevant PRC laws and regulations.

### **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

Based on the above, our PRC Legal Advisors are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations as:

- (a) each of the WFOE and the Operating Entities is a duly incorporated and validly existing company, and their respective establishment is valid, effective and complies with the

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relevant PRC laws and regulations; each of the Registered Shareholders is a natural person with full civil and legal capacity; and all parties to each of the Contractual Arrangements have obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;

- (b) the parties to each of the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” under the PRC Contract Law;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Operating Entities or our WFOE;
- (d) each of the Contractual Arrangements is binding on the assignees or successors of the parties thereto;
- (e) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
  - (i) the exercise of the option by our WFOE or its designee of its rights under the Exclusive Option Agreement to acquire all or part of the equity interests in China PnR is subject to the approvals of and/or registrations with the PRC regulatory authorities;
  - (ii) any share pledge contemplated under the Equity Pledge Agreement is subject to the registration with local administration bureau for industry and commerce; and
  - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement;
- (f) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
  - (i) the Contractual Arrangements provide that any dispute shall be submitted to the SHIAC for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai. They also provide that the arbitrator may award interim remedies over the shares or assets of our Operating Entities or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Operating Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our Operating Entities) shall also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our Operating Entities. However, our PRC Legal Advisors have advised that interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and
  - (ii) the Contractual Arrangements provide that the Registered Shareholders undertake to appoint a committee designated by our WFOE as the liquidation committee upon the winding up of the Operating Entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws.

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Notwithstanding the foregoing, representatives of our Company, our PRC Legal Advisors and the Joint Sponsors' PRC legal advisors have consulted the ICP Authority and the Payment Authority. During the interview, the Payment Authority provided verbal support on adoption of the Contractual Arrangements. Our PRC Legal Advisors have advised us that (i) such authorities are competent government authorities for the Company's principal business activities; (ii) the personnel consulted in the interview are competent and authorized to interpret the relevant PRC laws, regulations and rules for the industries in which our Company operates its businesses and make the abovementioned verbal confirmations; and (iii) based on such consultations, the adoption of the Contractual Arrangements is unlikely to be ineffective or invalid under the applicable PRC laws and regulations. Our PRC Legal Advisors are of the view that the use of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisors, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be ineffective or invalid under the applicable PRC laws and regulations. See "Risk Factors—Risks Relating to Our Contractual Arrangements."

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravened the prohibition against "concealment of illegal intentions with a lawful form", as set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC, and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisors are of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisors are of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) above under Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable China PnR to transfer its economic benefits to the WFOE as service fees and (b) to ensure that the Registered Shareholders do not take any actions that are contrary to the interests of the WFOE. In accordance with Article 4 of the PRC Contract Law, which is a section of Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of our Operating Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC Legal Advisors are of the view that the

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Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

#### Consolidation of financial results of Operating Entities

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by the WFOE, China PnR shall pay service fees to the WFOE. The service fees shall equal 100% of the total consolidated profit of the Operating Entities, after deduction of any accumulated deficit of the Operating Entities in the preceding financial year(s), working capital, expenses, taxes and other statutory contributions. The WFOE has the right to periodically receive or inspect the accounts of the Operating Entities.

In addition, under the Exclusive Equity Option Agreement, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders, as the WFOE's prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the service fees under the Exclusive Business Cooperation Agreement, such income, profit distribution or dividend to the WFOE or any other person designated by the WFOE to the extent permitted under applicable PRC laws.

As a result of the Contractual Arrangements between our WFOE, China PnR and the Registered Shareholders, our WFOE is able to effectively control, recognize and receive all the economic benefit (after deduction of any accumulated deficit of the Operating Entities in the preceding financial year(s), working capital, expenses, taxes and other statutory contributions) of the business and operations of the Operating Entities. Accordingly, the Operating Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the Operating Entities is disclosed in Note 2.1 to the Accountant's Report set out in Appendix I.

### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### Draft Foreign Investment Law

##### *Background*

MOFCOM published a discussion draft of a proposed Foreign Investment Law (the “**Draft FIL**”) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC. MOFCOM solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft FIL, if enacted as proposed, may materially impact the entire legal framework regulating foreign investment in the PRC.

##### *Negative list*

The Draft FIL stipulates restrictions of foreign investment in certain industry sectors. The “negative list” set out in the Draft FIL classifies the relevant prohibited and restricted industries into the “Catalog of Prohibitions” and the “Catalog of Restrictions”, respectively:

- **Catalog of Prohibitions:** Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds

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shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

- **Catalog of Restrictions:** Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfill certain conditions and apply for permission before making such investment.

However, the Draft FIL does not specify the businesses to be included in the Catalog of Restrictions and the Catalog of Prohibitions.

### ***Control by PRC entities and/or citizens***

The Draft FIL specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the Catalog of Prohibitions on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the Draft FIL to cover any of the following categories:

- (1) directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (2) directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:
  - (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies,
  - (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or
  - (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders meeting or the board; or
- (3) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

In respect of “actual control”, the Draft FIL looks at the identity of the ultimate natural person or enterprise that controls the FIE. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft FIL defines “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or FIEs.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

### **Impact of the Draft FIL on VIE**

The “variable interest entity” structure or VIE structure, has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to

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establish control over the Operating Entities by the WFOE, through which we operate our businesses in the PRC. According to the Draft FIL, where the FIE under the actual control of PRC investors (either by way of PRC state-owned enterprises or agencies or PRC citizens) invests in a sector set out in the Catalog of Restrictions, when applying for access permission, they may submit documentary evidence to apply for identification as an investment by PRC entities and/or citizens.

Notwithstanding that the accompanying explanatory notes to the Draft FIL (the “**Explanatory Notes**”) do not provide a clear direction in dealing with VIE structures existing before the Draft FIL becomes effective, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling within the “negative list”:

- (1) requiring them to make a filing to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;
- (2) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification by the competent authority, the VIE structures may be retained; and
- (3) requiring them to apply to the competent authority for access permission to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, “making a filing” is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, while for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft FIL and the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements; they have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation. The Draft FIL also stipulates that investors from Hong Kong, Macau and Taiwan who control a domestic enterprise may attract special treatment, and recommends the State Council to separately issue regulations to this effect.

Where foreign investors and FIEs circumvent the provisions of the Draft FIL by entrusted holdings, trusts, multilevel reinvestments, leasing, contracting, financing arrangements, protocol control, overseas transactions or otherwise, make investments in sectors specified in the Catalog of Prohibitions, make investments in sectors imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft FIL, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions or the Catalog of Restrictions without obtaining the necessary permission, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central

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Government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of the illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft FIL, including by way of failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Despite the content and the classification of the categories in the “negative list” being unclear and unpredictable at this stage, we will take any reasonable measures and actions under the foreign investment law then in force to minimize the adverse effect of such laws on the Contractual Arrangements.

### **Status of promulgation of the Draft FIL**

As of the Latest Practicable Date, the Draft FIL is currently in draft form only, and there is no certainty whether, or definite timeline when, the finalized/new Foreign Investment Law will come into effect, and more importantly, whether it is to be promulgated in the current draft form. MOFCOM has neither issued any definite rules or regulations to govern existing contractual arrangements, nor any regulations concerning the treatment of investors from Hong Kong, Macau and Taiwan who control a domestic enterprise.

### **Control over our Operating Entities by PRC entities and/or citizens**

If the Draft FIL is promulgated in the current draft form, our PRC Legal Advisors are of the view that we are likely to be viewed as being controlled by PRC citizens on the following basis:

- (i) based on the Contractual Arrangements, the Operating Entities are controlled by the WFOE (PRC incorporated) pursuant to the third limb of the definition of “control” under the Draft FIL as described above;
- (ii) as of the Latest Practical Date and at the time of Listing, a majority of the Board consisted and will continue to consist of PRC Nationals. Through a series of arrangements as summarized below, we will ensure that the majority of the Board (which is the governing body of the Company and makes all material decisions with respect to the Group) consists of PRC citizens (the “**PRC Nationals**”), and our Company (and therefore the WFOE as its wholly owned subsidiary) is likely to be considered as ultimately controlled by PRC Nationals pursuant to the second and third limbs of the definition of “control” under the Draft FIL as described above.

#### ***(a) The Company’s Corporate Governance Measures***

- The Company’s Memorandum and Articles of Association provide that the majority of the Board shall consist of PRC Nationals (the “**PRC Nationals Control Clause**”);

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- The Company's Memorandum and Articles of Association provides that a Director may only be elected or appointed either (i) by Shareholders of the Company voting upon the resolutions that have been proposed by a majority of the Directors; or (ii) by a majority of the Directors (the "**Director Election/Appointment Clause**"). The Board is in turn restricted to appoint or propose to the Company's shareholders to elect Directors from candidates nominated by the Nomination Committee in accordance with the terms of reference of the Nomination Committee;
- The Company's Memorandum and Articles of Association provide that the Board has the power, from time to time and at any time, to appoint any person as an additional Director to the Board, subject to the requirement that any director so appointed shall hold office only until the next annual general meeting and shall then be eligible for re-election. If the Shareholders of the Company do not vote to re-elect any Director nominated or appointed by the Board, it is in any event within the power of the Board to appoint one or more additional Directors, subject to the Directors being subject to re-election at the next annual general meeting of the Company (the "**Additional Directors Appointment Clause**");
- The terms of reference of the Board provides that the Board has the power to ensure that a majority of the Directors on the Board are PRC Nationals;
- The Nomination Committee of the Board is comprised only of PRC Nationals (being Mr. ZHOU Ye, Mr. LIU Jun and Ms. ZHANG Qi). The Nomination Committee is responsible for recommending nominees to the Board for appointment as Directors. The terms of reference of the Nomination Committee provide that when nominating Directors, the Nomination Committee shall be bound by the PRC Nationals Control Clause. The Shareholders of the Company have no right to propose any amendment to the terms of reference of the Nomination Committee which has not been proposed by the Board;

The Company's legal advisors on Cayman Islands Law, Walkers, has confirmed that the PRC Nationals Control Clause, the Director Election/Appointment Clause and the Additional Directors Appointment Clause are not in contravention of the Cayman Islands' laws applicable to the Company which are currently in force. The Company's PRC Legal Advisors are of the view that even if the Draft Foreign Investment Law is promulgated in the current draft form (i) the Company will still be viewed as being controlled by PRC Nationals; and (ii) the Operating Entities, which are controlled by the WFOE, which is in turn controlled by the Company, can legally operate in a sector which is in either the "Catalog of Restrictions" or "Catalog of Prohibitions" on the "catalog of special administrative measures", such that the Contractual Arrangements will be deemed as a domestic investment and permitted to continue even if the Draft FIL is promulgated in the current draft form.

### ***(b) The Company's Undertakings***

Furthermore, the Company will undertake to the Stock Exchange (the "**Company's Undertakings**") that:

- (a) it will use its best endeavors to ensure that a majority of the Directors on the Board are PRC Nationals, to the extent permitted by applicable laws, regulations and rules; and
- (b) if the Company receives any proposal to amend any of the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause, it will make full disclosure of the potential risks associated with such proposal and the scenario which may arise from such amendment, including but not limited to delisting



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of the Company's Shares from the Stock Exchange, in the circular to be dispatched to the Shareholders of the Company.

The Company's Undertakings will become effective immediately after completion of the Listing and remain effective until the earliest to occur of the following events:

- (a) compliance with the relevant requirements under the Draft FIL or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required and the Stock Exchange has consented to this;
- (b) compliance with the Company's Undertakings is no longer required, as advised by the Stock Exchange;
- (c) the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination;
- (d) the Company unwinds and terminates the Contractual Arrangements; or
- (e) the Company is delisted from the Stock Exchange.

To the extent that only part of the Company's Undertakings above is no longer required as a result of the above, only such part of the Company's Undertakings that is no longer required shall cease to be effective. To the extent that the Company's Undertakings (or any part thereof) is no longer effective, the Company will issue an announcement as soon as possible. Failure to abide by the Company's Undertakings may give rise to adverse regulatory consequences to the listing status of the Company.

Furthermore, the Company's Undertakings will be a public document for inspection. See "Appendix V—Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection."

### ***(c) The Shareholders' Undertakings***

Further, all the Company's current Shareholders, i.e. the Management Company and all the Pre-IPO Investors (together, the "**Undertaking Shareholders**"), will jointly undertake to the Company and the Stock Exchange (the "**Shareholders' Undertakings**"), to the extent of all their shareholdings in the Company from time to time, that:

- (a) they will not, severally or jointly, propose any resolution to amend the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause in the Company's constitutional documents at the general meeting of the Company; and
- (b) they will vote against any proposal to amend the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause in the Company's constitutional documents at the general meeting of the Company.

The Shareholders' Undertakings will become effective immediately upon completion of the Listing and remain effective until the earlier of the occurrence of the following events:

- (a) compliance with the relevant requirements under the Draft FIL or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as

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## CONTRACTUAL ARRANGEMENTS

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- promulgated) as finally enacted is not required and the Stock Exchange has consented to this;
- (b) compliance with the Shareholders' Undertakings is no longer required, as advised by the Stock Exchange;
  - (c) the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination;
  - (d) the Company unwinds and terminates the Contractual Arrangements;
  - (e) the relevant Shareholder of the Company completes the disposal of all its shareholdings in the Company; or
  - (f) the Company is delisted from the Stock Exchange.

To the extent that only part of the Shareholders' Undertakings above is no longer required as a result of the above, only such part of the Shareholders' Undertakings that is no longer required shall cease to be effective. To the extent that the Shareholdings' Undertakings (or any part thereof) is no longer effective, the Company will issue an announcement as soon as possible.

The Company will review and disclose the compliance with the Company's Undertakings and the Shareholders' Undertakings in its annual reports after the Listing.

Furthermore, it is impracticable for the Pre-IPO Investors to provide an undertaking that in the event of any transfer or disposal of their respective Shares of the Company, they will only transfer their interest in the Company to PRC Nationals, as such undertaking will substantially reduce the Pre-IPO Investors' investment values and make it impracticable to dispose of the Pre-IPO Investors' Shares in the Company in the open market.

Based on the views of our PRC Legal Advisors, our Directors are of the view that the Contractual Arrangements are likely to be deemed as a domestic investment and permitted to continue even if the Draft Foreign Investment Law is promulgated in the current draft form.

Notwithstanding the above, there may be uncertainties that the above measures to maintain control over and receive the economic benefit from our Operating Entities alone may not be effective in ensuring compliance with the new Foreign Investment Law together with, if any, all its subsequent amendments or updates, as promulgated (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. If, after the Listing, we fail to comply with the finalized Foreign Investment Law if and when it becomes effective, we may be required to dispose of our business under the Contractual Arrangements or make necessary corporate structure adjustments so as to comply with the finalized Foreign Investment Law. In one of the worst scenarios, if we are not able to maintain a sustainable business after the disposal or corporate structure adjustment, we may be delisted from the Stock Exchange. See "Risk Factors—Risks Relating to Our Contractual Arrangements."

### **Potential impact to our Company if the Contractual Arrangements are not treated as domestic investment**

If the operation of the Relevant Businesses is no longer on the "negative list" and we can legally operate the Relevant Businesses under PRC Laws, our WFOE will exercise the equity/asset purchase option under the Exclusive Equity Option Agreement and the Exclusive Asset Option

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## **CONTRACTUAL ARRANGEMENTS**

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Agreement to acquire the equity interest and/or assets of the Operating Entities and unwind the Contractual Arrangements subject to any then applicable approvals from relevant authorities.

If the operation of the Relevant Businesses is on the “negative list” and the Draft FIL as finally enacted is refined or deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. As a result, we would not be able to operate the Relevant Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of the Operating Entities. As a result, the financial results of the Operating Entities would no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If our Group does not receive any compensation, an investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing entities engaged in the third-party payments industry, some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that it is unlikely, if the Draft FIL is promulgated, that the relevant authorities will apply it retrospectively to require relevant enterprises to remove or otherwise unwind their contractual arrangements.

However, there are uncertainties as to the definition of control that may be adopted in the Draft FIL as finally enacted, and the relevant government authorities will have a broad discretion in interpreting the law. See “Risk Factors—Risks Relating to Our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the FIL, if and when it comes into force. Our Company undertakes that it will, after consulting with our PRC Legal Advisors and based on their advice, disclose (i) updates of changes to the Draft FIL that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the final FIL as implemented, specific measures taken by our Company to fully comply with the final FIL, and any material impact of the final FIL on our Company’s operations and financial position, as soon as practicable.

### **COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS**

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (2) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (3) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (4) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board with reviewing the implementation of the Contractual Arrangements, and review the legal compliance of our WFOE and Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

## CONNECTED TRANSACTIONS

Following the Global Offering, transactions between members of our Group and our connected persons will constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

### CONNECTED PERSON(S)

As the result of the Reorganization and Bain PnR's subsequent share purchase, the shareholding structure of PnR (Cayman) substantially mirrored our Company's shareholding structure before the completion of the Global Offering. See "History and Reorganization" for more details. PnR (Cayman) does not fall into the definition of connected person under the Listing Rules. In order to ensure that the interests of our Shareholders as a whole are taken into account when we enter into transactions with PnR (Cayman) and its subsidiaries after completion of the Global Offering, we will voluntarily treat it as our connected person and choose to comply with Chapter 14A of the Listing Rules.

As of the Latest Practicable Date, the shareholding structure of Paytech Holdings was similar to ours. In addition, Paytech Holdings was owned as to 71.19% by China PnR Holdings Limited, which is in turn owned as to 39.89% by Trixen, being one of our substantial shareholders. Therefore, Paytech Holdings will be our connected person immediately following the completion of the Global Offering under Rule 14A.07(4) of the Listing Rules. See "History and Reorganization" for more details.

### CONTINUING CONNECTED TRANSACTIONS

#### Summary of Our Continuing Connected Transactions

Nature of transaction	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31, (RMB million)		
			2018	2019	2020
<b>Exempt continuing connected transaction</b>					
IP License Framework Agreement . . . . .	14A.34, 14A.52, 14A.53 and 14A.76	Exempted	N/A	N/A	N/A
<b>Non-exempt continuing connected transactions</b>					
1. Property Leasing Framework Agreement . . . . .	14A.34, 14A.35, 14A.52, 14A.53 and 14A.76	Announcement requirement	8.0	8.8	9.7
2. Business Collaboration and Services Framework Agreement					
2(a). Provision of services by the Group to the Excluded Group . . . . .	14A.34, 14A.35, 14A.52, 14A.53 and 14A.76	Announcement requirement	9.9	11.8	14.2
2(b). Purchase of technology and data services by the Group from the Excluded Group . . . . .	14A.34, 14A.35, 14A.52, 14A.53 and 14A.76	Announcement requirement	12.1	16.2	20.2

## CONNECTED TRANSACTIONS

Nature of transaction	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31, (RMB million)		
			2018	2019	2020
3. Contractual Arrangements . . . . .	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 to 59 and 14A.71	Announcement and independent Shareholders' approval requirements and the requirement of setting annual caps	N/A	N/A	N/A

### EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction is conducted in the ordinary course of business of our Group and on normal commercial terms or better, where each applicable percentage ratio (except for the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors of our Company currently expect, be less than 0.1% on an annual basis. By virtue of Rule 14A.76(1)(a) of the Listing Rules, the transaction will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.


#### IP License Framework Agreement

**Parties:** PnR Network (as licensor);  
PnR (Cayman) (as licensee); and  
Paytech Holdings (as licensee)

#### Principal terms:

PnR Network, our WFOE, entered into an IP license framework agreement with PnR (Cayman) and Paytech Holdings on May 20, 2018 (the “**IP License Framework Agreement**”), respectively, pursuant to which, PnR Network agreed to grant the Excluded Group a non-exclusive license to use certain of its trademarks, brand names and logos (the “**IP rights**”) in the Excluded Group’s products, services and profile documents, and PnR Network will charge a licensing fee. The daily maintenance of the IP rights will be conducted by the WFOE. The initial term of the IP License Framework Agreement commences from the Listing Date and ends on December 31, 2020 and can be renewed for another three years upon its expiry as agreed by relevant parties to the agreement. Relevant subsidiaries or associated companies of both parties will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the IP License Framework Agreement.

#### Reasons for the transaction:

As a result of the Reorganization, our Group and the Excluded Group owned their respective requisite intellectual property rights necessary for their respective business operation, except that our Group owned the brand name of “汇付” and logo of “” which the Excluded Group will continue to use after the Listing to maintain the consistency and continuity of their corporate recognition.

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## CONNECTED TRANSACTIONS

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### **Pricing policy:**

In accordance with the IP License Framework Agreement, the total licensing fee to be paid to PnR Network by the Excluded Group will be determined with reference to the annual costs and expenses of daily maintenance of the IP rights in our usual and ordinary course of business.

### **Historical amount:**

Our Group and the Excluded Group entered into the IP License Framework Agreement after the Reorganization in 2018, therefore, for the three years ended December 31, 2015, 2016 and 2017, there is no historical transaction amount.

## **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

### **Continuing connected transactions subject to the reporting, annual review and announcement requirements but exempted from the independent shareholders' approval requirement**

The following transactions are conducted in the ordinary and usual course of business of our Group and on normal commercial terms or better, where each of the highest applicable percentage ratios (except for the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, be more than 0.1% but less than 5% on an annual basis. By virtue of Rule 14A.76(2)(a) of the Listing Rules, the transactions will be subject to the reporting, annual review and announcement requirements but exempted from the independent shareholders' approval requirement.

#### **1. Property Leasing Framework Agreement**

**Parties:** our Company (as the lessor);  
PnR (Cayman) (as the lessee); and  
Paytech Holdings (as lessee).

#### **Principal terms:**

We entered into a property leasing framework agreement with PnR (Cayman) and Paytech Holdings on May 20, 2018 (the "**Property Leasing Framework Agreement**"), pursuant to which, our Group may lease properties as offices and/or other work places to the Excluded Group, for which we may charge rental, property management fees, utility charges, device fees and other charges. The Property Leasing Framework Agreement is valid for a term commencing from the Listing Date to December 31, 2020 and can be renewed for another three years upon its expiry as agreed by relevant parties to the agreement. Relevant subsidiaries or associated companies of both parties will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Property Leasing Framework Agreement.

#### **Reasons for the transaction:**

In February 2017, we moved to the current office building purchased by us, and started to lease certain unused properties to members of the Excluded Group as their offices and/or other workplaces since then. Our Directors believe that it is in the interests of the Group and our Shareholders as a whole to enter into the Property Leasing Framework Agreement with the Excluded Group as we are thus able to make full use of the surplus space of the properties we own.

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## CONNECTED TRANSACTIONS

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### Pricing policy:

In accordance with the Property Leasing Framework Agreement, the rental and other charges to be paid to the Group by the Excluded Group will be determined based on the following pricing policies:

- (i) the rentals and property management fees paid to our Group by the Excluded Group will be determined and reviewed based on arm's-length negotiations between both parties with reference to the prevailing market rate (including but not limited to factors such as the geographical location, the standard of construction and the surrounding area), and is consistent with the market practice; and
- (ii) all utility charges, device fees, maintenance and repair fees and other miscellaneous expenses will be charged based on actual costs incurred in using the relevant properties during the term of the lease, in accordance with the relevant government guidance prices (for utility charges) or market prices.

### Historical amount:

There was no property leasing transaction entered into between our Group and the Excluded Group for the two years ended December 31, 2015 and 2016. For the year ended December 31, 2017, the total charges for rental and other services provided to our Group by the Excluded Group was approximately RMB4.1 million<sup>(1)</sup>.

### Annual caps:

For the three years ending December 31, 2018, 2019 and 2020, the maximum annual amounts of total rental and other charges shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31, (RMB million)		
	2018	2019	2020
Total rental and other charges to be paid to us by the Excluded Group . . . . .	8.0	8.8	9.7

### Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

- (i) subject to regular adjustments based on actual needs, as of the Latest Practicable Date, an aggregate gross floor area of approximately 3,000 sq.m. has been leased by our Group to members of the Excluded Group as their offices and/or other workplace, which is expected to remain relatively stable for the three years ending December 31, 2020;
- (ii) the daily rental stipulated in the existing lease agreements between our Group and members of the Excluded Group, ranging from approximately RMB4.23 to RMB4.26 per day/sq.m. Meanwhile, considering the market trend, we expect that the rental will increase

<sup>(1)</sup> We leased certain unused properties to several members of the Excluded Group after we moved to a new headquarters in February 2017. Most members of the Excluded Group started to lease properties from us since the middle or the second half of 2017 and pay rentals and other charges for the leased properties to us accordingly. Therefore, the historical transaction amount for the year ended December 31, 2017 in respect of rentals and other charges paid to the Group by the Excluded Group does not represent the transaction amount for a full year under the underlying lease agreements.

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## CONNECTED TRANSACTIONS

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by approximately 7% to 10% for each of the three years ending December 31, 2020. The monthly property management fees (at approximately RMB29.80 per month/sq.m.) are expected to increase accordingly; and

- (iii) all utility charges, maintenance and repair fee and other miscellaneous expenses and costs are expected to remain stable for the three years ending December 31, 2020.

### 2. Business Collaboration and Services Framework Agreement

**Parties:** our Company;  
PnR (Cayman); and  
Paytech Holdings.

**Principal terms:**

We entered into a business collaboration and services framework agreement with PnR (Cayman) and Paytech Holdings on May 20, 2018 (the “**Business Collaboration and Services Framework Agreement**”), respectively, pursuant to which, our Group and the Excluded Group will mutually provide services from time to time, and service fees will be paid to the other party in respect of such service (as detailed below).

Pursuant to the Business Collaboration and Services Framework Agreement, the services to be provided by our Group to the Excluded Group include:

- **Payment services:** we will provide payment services, including POS, Internet payment and mobile payment services, to members of the Excluded Group in the ordinary and usual course of our business on a continuing basis;
- **Software development services:** we will provide software and function development, data processing, system testing, application launching and data custody and maintenance services to certain members of the Excluded Group in the ordinary and usual course of our business on a continuing basis;
- **Value-added services:** we will provide value-added services to the Excluded Group, including recommendations of the financial advisory services provided by certain members of the Excluded Group to our clients in the ordinary and usual course of our business on a continuing basis; and
- **Advisory services:** we will provide operational and management advisory services as well as daily operation support, marketing, brand promotion, business expansion and other services to certain members of the Excluded Group in the ordinary and usual course of our business from time to time.

Pursuant to the Business Collaboration and Services Framework Agreement, the services to be provided to our Group by the Excluded Group include:

- **Technology outsourcing services:** as required by our Group from time to time, certain members of the Excluded Group will dispatch their technical staff to provide technical services and supports to our projects; and
- **Data information services:** certain members of the Excluded Group will provide us with finance-related technical advisory services and software development, maintenance and testing services.



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## CONNECTED TRANSACTIONS

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The Business Collaboration and Services Framework Agreement is valid for a term commencing from the Listing Date to December 31, 2020 and can be renewed for another three years upon its expiry as agreed by relevant parties to the agreement. Relevant subsidiaries or associated companies of the parties will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Business Collaboration and Services Framework Agreement.

### **Reasons for the transaction:**

The Group and the Excluded Group have a long-term, stable business relationship. The parties are mutually familiar with each other's business process and needs, quality standards and operational requirements and are able to supply the services needed by each other. Our Directors believe that maintaining a stable and quality business relationship with the Excluded Group will facilitate our current and future business operations.

In respect of the provision of services by the Group to the Excluded Group, our Operating Entities started to provide services, including but not limited to payment, software development, value-added services and advisory services, to the Excluded Group prior to and throughout the Track Record Period. The provision of the above services to the Excluded Group could enable the Group to access stable and reliable sales channels and better meet our business needs.

In respect of the purchase of technology and data services by the Group from the Excluded Group, (i) Shanghai Huifu Technology Co., Ltd. (上海匯付科技有限公司), a member of the Excluded Group, provided technology outsourcing services to us during the Track Record Period. It has been more cost-efficient for our Group to outsource procedural work to the Excluded Group rather than maintaining our own headcounts for processing such work; and (ii) as part of our development layout, we intend to offer more diversified fintech enabling services and develop clients in the financial services industry in China. By entering into the Business Collaboration and Services Framework Agreement, we are able to obtain finance-related consultancy and technical supports in which the Excluded Group specializes, at prevailing market conditions.

Based on our previous experience in business dealings with the Excluded Group, we believe that the Group and the Excluded Group are capable of effectively satisfying each other's demands for relevant stable and quality services, which is in the interests of the Group and our Shareholders as a whole.

### **Pricing policy:**

Under the Business Collaboration and Services Framework Agreement, the pricing policies are as follows:

#### ***(a) Provision of services by the Group to the Excluded Group***

The service fees to be paid to our Group by the Excluded Group will be determined with reference to prevailing market prices and shall not be lower than the prices at which we provide similar services to Independent Third Parties, in particular:

- **Payment services:** the service fee for payment services will be charged per transaction. Subject to the type, time and amount of the transaction, the service fee will be determined

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## CONNECTED TRANSACTIONS

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either at fixed prices or be calculated by reference to certain fee rates as stipulated under the underlying agreements;

- **Software development services:** the service fee for software development services will be calculated by the costs of devices and equipment, the number of technical staff involved, their unit salaries at each level and their working hours;
- **Value-added services:** the service fee for value-added services will be calculated by the actual transaction amount of the Excluded Group relevant to such value-added services (such as the actual transaction amount of referred customers per month), multiplied by a case-by-case fee rate as stipulated under the underlying agreements; and
- **Advisory services:** the service fee for advisory services will be calculated by the actual costs and expenses incurred from our provision of services per project, plus such actual costs and expenses multiplied by a fixed cost-plus ratio as stipulated under the underlying agreements.

The service fees to be paid to the Group by the Excluded Group will be determined on the basis of arm's-length negotiations between the relevant parties and be determined with reference to prevailing market prices. We will also make reference to the applicable historical prices of similar services to ensure that the terms of supplying such services to the Excluded Group are fair and reasonable.

### *(b) Purchase of technology and data services by the Group from the Excluded Group*

The service fees to be paid by our Group to the Excluded Group will be determined on a fair and reasonable basis and shall not be higher than the prices at which the Excluded Group provide similar services to the Independent Third Parties. We will also make reference to the applicable historical prices of similar services from the Independent Third Parties to ensure that the terms of purchasing such services from the Excluded Group are fair and reasonable.

- **Technology outsourcing services:** the service fee for technology outsourcing will be calculated on monthly basis, by reference to the number of technical staff involved, the unit salary at different job grades, and the staff's total working hours; and
- **Data information services:** the service fee for data information services will be calculated by reference to the costs incurred, including but not limited to, the number of working staff involved, their unit salaries at each level and the total working hours, and the type and number of information and advisory services we will receive.

### **Historical amounts:**

For the three years ended December 31, 2015, 2016 and 2017, the total fees for the service provided to our Group by the Excluded Group were approximately RMB3.2 million, RMB21.5 million<sup>(2)</sup> and RMB8.0 million, respectively.

We did not receive services from the Excluded Group in 2015. For the two years ended December 31, 2016 and 2017, the total fees for the service provided by our Group to the Excluded Group were RMB0.3 million and RMB1.8 million, respectively.

<sup>(2)</sup> In 2016, we entered into several advisory service provision agreements with three entities of the Excluded Group. The large amount of service fees resulted from the actual costs and expenses incurred in the establishment, staffing and promotion process of such entities.

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## CONNECTED TRANSACTIONS

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### Annual caps:

For the three years ending December 31, 2018, 2019 and 2020, the maximum annual amounts of total service fees to be paid to us by the Excluded Group shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31, (RMB million)		
	2018	2019	2020
Total service fees paid to us by the Excluded Group .....	9.9	11.8	14.2

For the three years ending December 31, 2018, 2019 and 2020, the maximum annual amounts of total service fees to be paid by us to the Excluded Group shall not exceed the caps set out below:

	Proposed annual caps for the year ending December 31, (RMB million)		
	2018	2019	2020
Total service fees paid by us to the Excluded Group .....	12.1	16.2	20.2

### Basis of caps:

When determining the above proposed annual caps, our Directors have taken into consideration the following factors:

#### ***(a) Provision of services by the Group to the Excluded Group***

- (i) the historical transaction amount and the existing services provision agreements between the Group and the Excluded Group during the Track Record Period and till present. We also considered the Excluded Group's *ad hoc* needs for advisory services from time to time based on the average historical transaction amount;
- (ii) the Excluded Group's increasing demand for our services to expand its financial service business, including, but not limited to, the need of payment channel to support the Excluded Group's financial service businesses, and the need of customized research and development advisory services to help the Excluded Group to better meet the market's trend and the regulatory requirements, etc. Considering the favorable environment of the consumer finance industry, it is expected that the Excluded Group's demand for our payment services, value-added services and advisory services will increase steadily for each of the three years ending December 31, 2020;
- (iii) subject to the project size, we expect that the total working hours of our technical staff to provide software development services range from 500 hours to 2,000 hours per project. Meanwhile, our monthly staff and resource costs to provide data maintenance services are expected to increase by approximately RMB10,000 for each of the three years ending December 31, 2020; and
- (iv) our customer base, especially the number of micro and small merchant customers, has been increasing during the Track Record Period and is expected to continue to increase rapidly in the three years ending December 31, 2020, which will generate more cooperation opportunities of referral and other value-added service businesses between the Group and the Excluded Group.

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## CONNECTED TRANSACTIONS

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### *(b) Purchase of technology and data services by the Group from the Excluded Group*

- (i) the existing services purchasing agreements between the Group and the Excluded Group during the Track Record Period and up to the present. The significant increase in the proposed annual caps is mainly a result of our growing business development needs as set out below, such as the estimated increase in working hours for technology outsourcing services and new consultancy and software development projects to be launched in the middle or the second half of 2018;
- (ii) our business has grown substantially in recent years. Our revenue grew from RMB555.7 million in 2015 to RMB1,094.8 million in 2016, and further to RMB1,726.3 million in 2017. Due to the expected significant growth in our operational scale for the three years ending December 31, 2020, our investment in services such as technology development and maintenance to be provided by the Excluded Group in supporting our business operations are expected to grow accordingly. The estimated technology outsourcing, development, testing and maintenance fees to be provided to the Excluded Group are calculated with reference to (a) the number of technical staff involved, ranging from 13 to 20, (b) the staff's monthly working hours of 160 working hours on average and (c) the increase in unit salary by approximately 10% to 20%, for the three years ending December 31, 2018, 2019 and 2020. We estimate that we will receive customized consultancy services for two to three software development projects for certain sectors in the financial industry from the Excluded Group in each of the third and fourth quarter of 2018, to gain full support to our customized industry specific payment solutions. Currently, sectors in the financial industry we propose to expand into include financial leasing, supply chain finance, consumer finance and microfinance; and
- (iii) for our fintech enabling business development layout, we plan to increase our investment in developing services and solutions to customers in the finance industry. For example, in January 2018, PnR Data, our Operating Entity, entered into a business cooperation agreement with Hui Fu Financial Leasing (Shanghai) Co., Ltd. (慧釜融資租賃(上海)有限公司), a member of the Excluded Group, to receive technical consultation, software development and testing services. The estimated data service fees are calculated with reference to (a) the estimated number and unit price of consultancy projects according to our demands and (b) the estimated increase in maintenance and operation costs (such as increases in unit price of consultancy project and unit salary for software development services) by approximately 10% to 20% for the three years ending December 31, 2018, 2019 and 2020.

### **Continuing connected transaction subject to the reporting, annual review, announcement and the independent shareholders' approval requirements**

The following transaction is conducted in the ordinary and usual course of business of our Group and on normal commercial terms or better, where each of the highest applicable percentage ratios (except for the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, be more than 5% on an annual basis. By virtue of Rule 14A.76(2) of the Listing Rules, the transaction will be subject to the reporting, annual review, announcement and the independent shareholders' approval requirements.

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## CONNECTED TRANSACTIONS

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### 3. Contractual Arrangements

#### Background

As disclosed in the section headed “Contractual Arrangements”, due to regulatory restrictions on foreign ownership in the PRC, we conduct a substantial portion of our business through our Operating Entities in the PRC. We do not hold any equity interests in our Operating Entities which are held by the Registered Shareholders. The Contractual Arrangements enable us to (i) receive all of the economic benefits (after deduction of any accumulated deficit of the Operating Entities in the preceding financial year(s), working capital, expenses, taxes and other statutory contributions) from our Operating Entities in consideration for the services provided by PnR Network to the Operating Entities; (ii) exercise effective control over our Operating Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in Operating Entities when and to the extent permitted by PRC laws.

See “Contractual Arrangements” for detailed terms of the Contractual Arrangements.

#### Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely the Directors ZHOU Ye and MU Haijie and LIU Gang (a director of our subsidiary), are connected persons of our Company. Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group’s legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Operating Entities and any member of our Group (the “**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special position in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the reporting, annual review, announcement and the independent shareholders’ approval requirements.

#### INTERNAL CONTROL MEASURES

In order to ensure the terms under relevant framework agreements for the continuing connected transactions are fair and reasonable or no less favorable than terms available to or from Independent Third Parties and are carried out under normal commercial terms, the Company has adopted the following internal control procedures:

- our Company has adopted and implemented a management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for conducting reviews on compliance with relevant laws, regulations, our Company’s policies and the Listing Rules in respect of the continuing connected transactions. In addition, the Audit Committee under the Board, the Investment, Financing and Investor

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## CONNECTED TRANSACTIONS

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Relation Department (投融資及投資者關係部) and various other internal departments of the Company (including but not limited to the finance department and compliance and legal department are jointly responsible for evaluating the terms under the framework agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement;

- the Audit Committee under the Board, the Investment, Financing and Investor Relation Department and various other internal departments of the Company also regularly monitor the fulfillment status and the transaction updates under the framework agreements. In addition, the management of the Company also regularly reviews the pricing policies of the framework agreements;
- our independent non-executive Directors will review the continuing connected transactions under the framework agreements every year and confirm in the annual report whether the transactions have been entered into: (1) in our ordinary and usual course of business; (2) on normal commercial terms or better; and (3) the terms of the relevant framework agreements are fair and reasonable and in the interests of the Shareholders as a whole;
- our auditors will report on the continuing connected transactions under the framework agreements every year and provide a letter to the Board, confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions under the framework agreements: (1) have not been approved by the Board (where applicable); (2) are not, in all material respects, in accordance with the relevant pricing policies if the transactions involve the provision of services by us; (3) are not entered into, in all material respects, in accordance with the relevant framework agreements; and (4) have exceeded the relevant annual caps;
- when considering the actual rent and other charges and service fees for the services to be provided to the Group by the above connected persons or the service fees for the services to be provided by the Group to the above connected persons, the Group will continuously research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favorable than those offered to Independent Third Parties; and
- when considering any renewal or revisions to the framework agreements after Listing, the interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at board meetings or shareholders' general meetings (as the case may be), and our independent Directors and Shareholders (as the case may be) have the right to consider if the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole. If the independent Directors' or independent Shareholders' approvals cannot be obtained, we will not continue the transactions under the framework agreement(s) to the extent that they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### WAIVERS FROM THE STOCK EXCHANGE

#### **The Property Leasing Framework Agreement and the Business Collaboration and Services Framework Agreement**

As we expect the above non-exempt continuing connected transactions under the Property Leasing Framework Agreement and the Business Collaboration and Services Framework Agreement will continue on a recurring and continuing basis, the Directors of our Company (including the independent non-executive Directors) consider that strict compliance with the above announcement requirements (as the case may be) would add unnecessary administrative costs and would be unduly burdensome. Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted to the Company, a waiver under Rules 14A.04 and 14A.105 of the Listing Rules from strict compliance with the announcement requirements in respect of the non-exempt continuing connected transactions under the Property Leasing Framework Agreement and the Business Collaboration and Services Framework Agreement, subject to the condition that the total amount of transactions for each of the three years ending December 31, 2020 shall not exceed the proposed caps as set out above. Our Company will comply with the applicable requirements under the Listing Rules if any of the proposed annual caps set out above are exceeded, or when there is a material change in the terms of these transactions.

#### **The Contractual Arrangements**

In respect of the Contractual Arrangements, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Rules 14A.04 and 14A.105 of the Listing Rules, and (ii) the requirement of setting an annual cap for the transaction under the Contractual Arrangements under Rule 14A.53 of the Listing Rules:

##### ***(a) No change without independent non-executive Directors' approval***

No change to the Contractual Arrangements (including with respect to any fees payable to the WFOE thereunder) will be made without the approval of our independent non-executive Directors.

##### ***(b) No change without independent Shareholders' approval***

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will, however, continue to be applicable.

##### ***(c) Economic benefit flexibility***

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Operating Entities through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests and assets at a consideration which shall be the higher of (a) a nominal price or (b) the lowest price as permitted and

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## CONNECTED TRANSACTIONS

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applicable PRC laws, (ii) the business structure under which the profit generated by the Operating Entities is retained by our Group (after deduction of any accumulated deficit of the Operating Entities in the preceding financial year(s), working capital, expenses, taxes and other statutory contributions), such that no annual cap shall be set on the amount of service fees payable to the WFOE by the Operating Entities under the Exclusive Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as the substance of, all of the voting rights of the Operating Entities.

### ***(d) Renewal and reproduction***

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has a direct shareholding, on the one hand, and the Operating Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

### ***(e) Ongoing reporting and approvals***

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual reports for the relevant years that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company's auditor will carry out review procedures annually on the transactions, pursuant to the Contractual Arrangements, and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our



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## CONNECTED TRANSACTIONS

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Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Operating Entities will be treated as our Company’s subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Operating Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, the Operating Entities), and transactions between these connected persons and our Group (including, for this purpose, the Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Operating Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Operating Entities will provide our Group’s management and our Company’s auditor with full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.
- In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any New Intergroup Agreements (as defined above), and (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from our Operating Entities in any New Intergroup Agreements, for so long as the Shares are listed on the Stock Exchange. The waiver is subject to the condition that the Contractual Arrangements subsist and that the Operating Entities will continue to be treated as our Company’s subsidiaries, but their directors, chief executives or substantial shareholders of the Operating Entities and their associates will be treated as connected persons of our Company (excluding, for this purpose, the Operating Entities), and transactions between these connected persons and our Group (including, for this purpose, our Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

### CONFIRMATION FROM THE DIRECTORS

The Directors (including the independent non-executive Directors) of our Company are of the view that (i) the above connected transactions have been entered into during our ordinary and usual course of business on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and (ii) the proposed annual caps (if applicable) under the above non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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The Directors (including the independent non-executive Directors) of our Company are of the view that the Contractual Arrangements and the transactions contemplated therein (i) are fundamental to our legal structure and business operations, and (ii) have been entered into and will be entered into during our ordinary and usual course of business on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. The Directors are of the view that with respect to the terms of the relevant agreements underlying the Contractual Arrangements, which are of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration to ensure that (i) the financial and operational policies of the Operating Entities can be effectively controlled by PnR Network; (ii) PnR Network can obtain the economic benefits derived from the Operating Entities, and (iii) any possible leakages of assets and values of the Operating Entities can be prevented, on an uninterrupted basis.

### CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Group, (ii) obtained necessary representations and confirmation from the Company and the Directors and (iii) participated in the due diligence and discussion with the management of the Company and the PRC Legal Advisors. Based on the above, the Joint Sponsors are of the view that (i) the above non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of the Group on normal commercial terms, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole and (ii) the proposed annual caps (if applicable) under the above non-exempt continuing connected transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Joint Sponsors are also of the view that with respect to the terms of the relevant agreements underlying the Contractual Arrangements, which are of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration to ensure that (i) the financial and operational policies of the Operating Entities can be effectively controlled by PnR Network; (ii) PnR Network can obtain the economic benefits derived from the Operating Entities, and (iii) any possible leakages of assets and values of the Operating Entities can be prevented, on an uninterrupted basis.

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## DIRECTORS AND SENIOR MANAGEMENT

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### OVERVIEW

The Board currently consists of nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. All Directors are elected by the general meeting for a term of three years which is renewable upon re-election. The major powers and functions of the Board include, but are not limited to, convening the general meetings, reporting its work at the general meetings, implementing the resolutions passed at the general meetings, considering and approving the operating plans and investment plans of the Company, formulating the Company's strategic development plans, formulating annual financial budgets and final accounts plans, formulating profit distribution plans and plans on making up losses, and exercising other powers and functions as conferred by the Memorandum and Articles of Association.

The following tables set forth information regarding our Directors and senior management.

### Directors and Senior Management

The table below sets forth certain information on our Directors:

Name	Age	Position	Major duties	Date of joining the Group	Date of appointment as Director	Relationship with other Directors and senior management
<b>Executive Directors</b>						
Mr. ZHOU Ye (周擘)	52	Chairman of the Board, Executive Director and Chief Executive Officer	Responsible for convening and chairing general meetings and Board meetings; and responsible for overall management and deciding major strategies and the development and investment plan of the Group	July 2006	December 21, 2017	None
Ms. MU Haijie (穆海潔)	47	Executive Director and President	Participating in formulation of business plans, strategic and major decisions; overseeing the day-to-day business and operations of the Group and work of the vice Presidents; and directly reporting to the Chief Executive Officer	July 2006	March 2, 2018	None
Mr. JIN Yuan (金源)	43	Executive Director, Chief Financial Officer and Joint Company Secretary	Participating in the formulation of business plans, strategic and major decisions; responsible for the overall corporate finance, audit and capital management, investor relations and company secretarial matters; and directly reporting to the Chief Executive Officer	April 2014	March 2, 2018	None

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Major duties	Date of joining the Group	Date of appointment as Director	Relationship with other Directors and senior management
<b>Non-executive Directors</b>						
Mr. CHYE Chia Chow (蔡佳釗)	46	Non-executive Director	Participating in the formulation of business plans, strategic and major decisions of the Group as a member of the Board	November 2008	March 2, 2018	None
Mr. ZHOU Joe	57	Non-executive Director	Same as above	September 2011	March 2, 2018	None
Mr. CHEN Zhongjue (陳中嶠)	40	Non-executive Director	Same as above	June 2015	March 2, 2018	None
<b>Independent Non-executive Directors</b>						
Mr. LIU Jun (劉俊)	58	Independent Non-executive Director	Supervising and offering independent judgment to the Board and serving as chairman and/or members of certain committees of the Board	March 2018	March 2, 2018	None
Mr. WANG Hengzhong (王恒忠)	50	Independent Non-executive Director	Same as above	March 2018	March 2, 2018	None
Ms. ZHANG Qi (張琪)	59	Independent Non-executive Director	Same as above	March 2018	March 2, 2018	None

The following table below sets forth certain information on the senior management of the Company, the scope of which is in compliance with our Memorandum and the Articles of Association:

Name	Age	Position	Major duties	Date of joining the Group	Date of appointment as senior management	Relationship with other Directors and senior management
Mr. ZHOU Ye (周擘)	52	Chairman of the Board, Executive Director and Chief Executive Officer	Responsible for convening and chairing general meetings and Board meetings; and responsible for overall management and deciding major strategies and the development and investment plan of the Group	July 2006	March 2, 2018	None
Ms. MU Haijie (穆海潔)	47	Executive Director and President	Participating in formulation of business plans, strategic and major decisions; overseeing the day-to-day business and operations of the Group and work of the vice Presidents; and directly reporting to the Chief Executive Officer	July 2006	March 2, 2018	None

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Major duties	Date of joining the Group	Date of appointment as senior management	Relationship with other Directors and senior management
Mr. JIN Yuan (金源)	43	Executive Director, Chief Financial Officer and Joint Company Secretary	Participating in the formulation of business plans, strategic and major decisions; responsible for the overall corporate financial, audit and capital management, investor relations and company secretarial matters; and directly reporting to the Chief Executive Officer	April 2014	March 2, 2018	None
Mr. JIANG Jingyu (姜靖宇)	48	Vice President	Responsible for technology and data operations management of the Group; and directly reporting to the President	March 2014	March 2, 2018	None
Mr. HUA Lei (花蕾)	36	Vice President	Responsible for marketing and sales of the Group; and directly reporting to the President	February 2013	March 2, 2018	None

### DIRECTORS

#### Executive Directors

**Mr. ZHOU Ye (周曄)**, aged 52, was appointed as an executive Director in December 2017 and the Chairman of the Board and the Chief Executive Officer in March 2018. He is also the chairman of the board of directors of PnR Network, the chairman of the board of directors and the chief executive officer of China PnR and the chairman of the board of directors of PnR Data. Mr. ZHOU currently serves as a director of the Management Company; a non-executive director of PnR Holdings, PnR (Cayman), Paytech Holdings and 14 members of the Excluded Group and a limited partner of HuiFu FinTech. Mr. ZHOU has over 29 years of experience in computer technology, electronic payments and finance and corporate management. Prior to joining the Group, Mr. ZHOU's previous work experience primarily includes: serving as a software engineer in the No.32 Institute of Electronics Industrial Ministry (電子工業部第32研究所, currently known as the Technology No.32 Institute of China Electronics Technology Group Corporation (中國電子科技集團公司第三十二研究所)) from June 1989 to February 1993; the manager of the sales department, a vice president and a senior vice president of Shanghai Huateng Software System Co., Ltd. (上海華騰軟件系統有限公司) from February 1993 to June 2000; and an executive director and the general manager of ChinaPay Electronic Payment Service Co., Ltd. (上海銀聯電子支付服務有限公司) from June 2000 to May 2006.

Mr. ZHOU obtained a bachelor's degree of science in wireless electronics from the department of electronic engineering of Fudan University in Shanghai, the PRC in July 1986; a master's degree of engineering in communication and electronic systems from the department of wireless electronics of Shanghai University of Science and Technology (上海科學技術大學, currently known as Shanghai University) in Shanghai, the PRC in June 1989; and a master's degree in business administration from China Europe International Business School in Shanghai, the PRC in April 2002. Mr. ZHOU graduated from the DBA Global Finance Program of Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University in Shanghai, the PRC and obtained a doctor's degree of business administration in Global Financial Management from Arizona State University in May 2015. Mr. ZHOU was awarded the "Leading Talent of Shanghai City for the Year of 2011 (2011上海市領軍人才)" by the Organization

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## DIRECTORS AND SENIOR MANAGEMENT

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Department of CPC Shanghai Committee (中共上海市委組織部) and Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) in December 2011 and the “Top Ten Financial Innovation Figures for the Year of 2012 (2012滬上十大金融創新人物)” jointly by Xinhua News Agency Shanghai Bureau (新華社上海分社), Shanghai Financial Association (上海金融業聯合會) and institutions in December 2012. Mr. ZHOU currently serves as a member of the Internet Finance Committee of Asset Management Association of China; a vice chairman of the Association of Shanghai Internet Financial Industry; an executive director of Shanghai Finance Institute; and a part-time professor of the Shanghai National Accounting Institute.

As of the Latest Practicable Date, Mr. ZHOU directly held 60,060,000 ordinary shares in China PnR, which was pledged to PnR Network under the Contractual Arrangements; and 30,000 ordinary shares in the Management Company, a substantial shareholder of the Company.

Mr. ZHOU is our Chairman of the Board and our Chief Executive Officer. With extensive experience in the industry and in corporate management, Mr. ZHOU is responsible for the overall strategic planning and general management and is contributive to our development and business expansion since our establishment in 2006. Considering the rapidly evolving industry in which our Group operates, our Chairman and Chief Executive Officer need to have a profound understanding and be equipped with extensive industry knowledge to stay abreast of market changes, so as to facilitate our business development. Our Board considers that vesting the roles of chairman and chief executive officer in the same person, being Mr. ZHOU, is beneficial to the strategy formation and implementation, business prospects and operational efficiency of our Group upon Listing. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced and high-caliber individuals. Our Board currently comprises three executive Directors (including Mr. ZHOU), three non-executive Director and three independent non-executive Directors, and therefore has a degree of independence element in its composition. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board encourages all Directors to attend Board meetings and meetings of relevant Board committees, at which (i) the Chairman of the Board and the chairmen of relevant Board committees will make sure that all Directors are informed of, and given sufficient time to discuss, all matters proposed at the meetings; and (ii) the senior management will provide adequate, accurate, clear, complete and reliable data and information to the Board members in a timely manner. While the Board believes that our balance of power and authority has been well guaranteed considering the above factors, the Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess the reasonableness and necessity of the roles of the Chairman of the Board and the Chief Executive Officer being vested in the same person.

**Ms. MU Haijie (穆海潔)**, aged 47, was appointed as an executive Director and the President of the Company in March 2018. She is also a director of PnR Network, PnR JH, Yifu Cloud and Nanjing Dechen; a director and the president of China PnR; and a director and the general manager of PnR Data. Ms. MU currently serves as a director of the Management Company; a non-executive director of PnR Holdings, PnR (Cayman), Paytech Holdings and four members of the Excluded Group. Ms. MU has over 24 years of experience in financial and accounting, electronics payment and corporate management. Prior to joining the Group, Ms. MU’s previous work experience primarily includes: at Shanghai Xingda Real Estate Development Co., Ltd. (上海興大房產發展有限公司) from August 1993 to November 1996; finance manager of Nike Sports (China) Co., Ltd. (耐克體育(中國)有限公司) from October 1996 to September 2000; and finance manager and assistant general manager of

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## DIRECTORS AND SENIOR MANAGEMENT

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ChinaPay Electronic Payment Service Co., Ltd. (上海銀聯電子支付服務有限公司) from October 2000 to May 2006. Ms. MU served as a senior vice president of China PnR from July 2006 to March 2018.

Ms. MU graduated in international finance from Shanghai Finance College (上海金融高等專科學校) (currently known as the Shanghai Lixin University of Accounting and Finance) in Shanghai, the PRC, in July 1993; and obtained an Executive Master's degree of Business Administration from China Europe International Business School in Shanghai, the PRC in October 2013. Ms. MU was awarded the "EMBA 2011 Outstanding Graduate Award" by China Europe International Business School in October 2013 and the "Shanghai Pioneer Award for Conversion of High-Tech Achievements (上海高新技術成果轉化先鋒人物獎)" jointly by the Technology Venture Centre of Shanghai (上海市科技創業中心) and the Talent Service Centre of Shanghai (上海市人才服務中心) of Shanghai in October 2017. Ms. MU currently serves as a standing member of the council of the Payment & Clearing Association of China.

As of the Latest Practicable Date, Ms. MU directly held 10,010,000 ordinary shares in China PnR, which were pledged to PnR Network under the Contractual Arrangements; and 10,000 ordinary shares in the Management Company, a substantial shareholder of the Company.

**Mr. JIN Yuan (金源)**, aged 43, was appointed as an executive Director and a Joint Company Secretary in March 2018 and the Chief Financial Officer of the Company in December 2017. He is also the chief financial officer of China PnR and a director of PnR Network. Mr. JIN currently serves as an independent director of Shanghai Tong Shi Network Corporation (上海童石網絡科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 833377). Mr. JIN has over 20 years of experience in financial and accounting, capital operation and corporate management. Prior to joining the Group, Mr. JIN's previous work experience primarily includes: consecutively serving as the financial manager, financial controller and board secretary, and a vice president and the chief financial officer of, Shanghai Huateng Software System Co., Ltd. (上海華騰軟件系統有限公司) from July 1997 to December 2011; and general manager of the financial management center of Chinasoft International Co., Ltd. (中軟國際有限公司) and the chief financial officer of its professional service group from January 2012 to April 2014. Mr. JIN joined the Group in April 2014 and has consecutively served in several positions, including as vice president of Shanghai Huifu Technology Ltd. (上海匯付科技有限公司) from April 2014 to January 2015 and as financial controller of China PnR since February 2015.

Mr. JIN obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in Shanghai, the PRC in July 1997; and a master's degree in professional accountancy from The Chinese University of Hong Kong in Hong Kong in December 2006. Mr. JIN obtained the qualification of Senior Accountant from the Shanghai Municipal Human Resources and Social Security Bureau in December 2013. Mr. JIN is currently a member of the Accounting Information Committee of the Accounting Society of China; a part-time postgraduate tutor at Shanghai National Accounting Institute; and a part-time postgraduate tutor at the Management School of Shanghai University.

### Non-Executive Directors

**Mr. CHYE Chia Chow (蔡佳釗)**, aged 46, was appointed as a non-executive Director of the Company in March 2018. He is also a non-executive director of PnR Holdings and PnR (Cayman). Mr. CHYE currently serves as a director of Trixen Enterprises Ltd. In addition, he serves as a

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## DIRECTORS AND SENIOR MANAGEMENT

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non-executive director in several companies involved in various industries, including agriculture, property, forestry and telecommunications. Mr. CHYE has over 22 years of experience in financial, investment and corporate strategy and management. Mr. CHYE's previous work experience includes: serving as a manager in Tokai Bank, Ltd from June 1996 to October 1999; and consecutively served as several positions in Boston Consulting Group from October 1999 to April 2007, including serving as the principal.

Mr. CHYE obtained a bachelor's degree of business with first-class honors from Nanyang Technological University in Singapore in June 1996. Mr. CHYE obtained the qualification of Chartered Financial Analyst from the Association for Investment Management and Research in June 1999.

**Mr. ZHOU Joe**, aged 57, was appointed as a non-executive Director of the Company in March 2018. He also serves as a non-executive director of PnR Holdings, PnR (Cayman) and Paytech Holdings. Mr. ZHOU has served as a managing partner at Keytone Ventures, a China-focused venture capital partnership, since 2008. Before founding Keytone Ventures in 2008, he served as the chief representative of Softbank China Venture Capital Beijing Office from the end of 1999 to October 2001, and as a managing partner of KPCB China from early 2007 to April 2008. He also formerly served as a partner of SAIF Partners.

Mr. ZHOU obtained a bachelor's degree of engineering from Beijing University of Technology (北京工業大學) in Beijing, the PRC in July 1982; and a master's degree in electrical engineering from New Jersey Institute of Technology in the State of New Jersey, the United States in September 1990. Mr. ZHOU was awarded the "Top 20 Venture Capitalists of the Year of 2001 (2001年中國最活躍的風險投資人)" jointly by Digital Fortune Magazine (數字財富雜誌社) and Zero2IPO, Ltd.; and the "Top 10 Most Active Venture Capitalists of the Year of 2005 (中國十大活躍創業投資人)", the "Top 10 Most Active Venture Capitalists of the Year of 2006 (中國十大活躍創業投資人)" and "Top 10 Venture Capitalists of the Year of 2007 (2007年中國創業投資家10強)" by Zero2IPO, Ltd., respectively. He was accredited the "Venture Capital Professional of the Year 2010 (2010年年度風險投資家)" by Asian Venture Capital Journal (AVCJ) in November 2010.

**Mr. CHEN Zhongjue (陳中崛)**, aged 40, was appointed as a non-executive Director of the Company in March 2018. He is also a non-executive director of PnR Holdings and PnR (Cayman). Mr. CHEN is currently a managing director of Bain Capital, LP; a director of ASIMCO Technologies Group Limited, RISE Education Cayman Ltd. (a company listed on NASDAQ, stock code: REDU) and Trans Maldivian Airways (Pvt) Ltd. Mr. CHEN has over 13 years of experience in private equity industry, and his focus is on the technology, education, business and financial services sectors. Mr. CHEN's previous work experience includes: serving as an associate consultant in Bain & Company from August 2001 to July 2003; and serving in the headquarters of Bain Capital Private Equity in the United States from September 2005 to July 2007.

Mr. CHEN obtained a bachelor's degree of arts (*magna cum laude*) in economics from Harvard College in June 2001, and a master's degree in business administration from Harvard Business School in June 2005 in the State of Massachusetts, the United States, respectively.

### Independent Non-Executive Directors

**Mr. LIU Jun (劉俊)**, aged 58, was appointed as an independent non-executive Director of the Company in March 2018, effective upon Listing. He currently serves as a professor in the Rady School



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## DIRECTORS AND SENIOR MANAGEMENT

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of Management of the University of California, San Diego. Mr. LIU has over 19 years of experience in research and studies in finance. Prior to joining the Group, Mr. LIU's previous work experience includes: serving as an assistant professor in the Anderson School of Management in the University of California, Los Angeles from July 2000 to June 2005; an associate professor of the Rady School of Management of the University of California, San Diego from July 2005 to June 2014 and promoted to full professor in July 2014; a professor of finance in Cheung Kong Graduate School of Business (長江商學院) from September 2007 to August 2009; a professor of finance in the Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University (上海高級金融學院) from July 2012 to August 2016. He was the dean of the Finance School of Southwestern University of Finance and Economics from April 2007 to April 2016; and an associate dean of the Institute of Financial Studies of Southwestern University of Finance and Economics from January 2010 to December 2015. Mr. LIU also served as an independent non-executive director of Insigma Technology Co., Ltd. (浙大網新科技股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600797) from June 2009 to June 2015.

Mr. LIU obtained a bachelor's degree of science from Peking University in Beijing, the PRC in February 1982; a doctor's degree from the University of Texas at Austin in the State of Texas, the United States in August 1988; and a doctor's degree in finance in Stanford University in the State of California, the United States in August 1999. Mr. LIU was awarded the "BGI/Michael Brennan Best Paper" by the Review of Financial Studies in 2005. He was granted the title of "Cheung Kong Scholars Program (長江學者)" by the Ministry of Education of the PRC in 2006 and a member of the "Recruitment Program of Global Experts (千人計劃)" by the Organization Department of the Central Committee of the Communist Party of China (中共中央組織部).

**Mr. WANG Hengzhong (王恒忠)**, aged 50, was appointed as an independent non-executive Director of the Company in March 2018, effective upon Listing. Mr. WANG currently serves as the in-charge partner of Shanghai Branch Office and a member of the fourth session of the quality control committee of Grant Thornton Certified Public Accountants (special general partnership) (致同會計師事務所 (特殊普通合夥)), and an independent non-executive director of Shanghai Ganglian E-Commerce Holdings Co., Ltd. (上海鋼聯電子商務股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300226). Mr. WANG has over 20 years of experience in auditing, accounting and management. Prior to joining the Group, Mr. WANG's previous working experience includes: serving as the chief accountant in Shanghai Jiahua Accountancy Co., Ltd. (上海佳華會計師事務所有限公司) from August 1998 to December 2007; the legal representative of Shanghai Junfu Pan Chen Zhang Jiahua Accountancy Co., Ltd. (上海均富潘陳張佳華會計師事務所) from December 2007 to September 2009; a partner of Jingdu Tianhua Accountancy Co., Ltd. (Shanghai Branch) (京都天華會計師事務所有限公司上海分所) from September 2009 to July 2012; an independent non-executive director of Great Wall Movie and Television Company Limited (長城影視股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002071) from December 2015 to August 2016; and an independent non-executive director of ArtGo Holdings Limited (a listed company on the Hong Kong Stock Exchange, stock code: 3313) from December 2013 to June 2017. Mr. WANG was a council member of the sixth session of the Shanghai Young Entrepreneurs Association (上海市青年企業家協會); and a member of the fifth session of the Shanghai Jiading District Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議上海市嘉定區第五屆委員會委員).

Mr. WANG obtained a master's degree in professional accountancy from the Chinese University of Hong Kong in Hong Kong in December 2006, and an executive master's degree of business administration from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong

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## DIRECTORS AND SENIOR MANAGEMENT

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University in Shanghai, the PRC in 2015. Mr. WANG obtained the qualification of Certified Public Accountant in the PRC from the Shanghai Certified Public Accountant Association in September 1994, and the qualification of International Accountant from the Association of International Accountants in the United Kingdom in September 2014. He was accredited the certificate of independent director qualification from the Shanghai Stock Exchange in April 2013. Mr. WANG is currently a member of the Jiusan Society and the Shanghai Economic Special Committee of the Jiusan Society (九三學社上海市經濟專門委員會), and a member of the disciplinary committee of the Association of Certified Public Accountants of Shanghai (上海註冊會計師協會紀律懲戒委員會).

**Ms. ZHANG Qi (張琪)**, aged 59, was appointed as an independent non-executive Director of the Company in March 2018, effective upon Listing. Ms. ZHANG currently serves as the vice chairman and an executive director of Red Star Macalline Group Corporation Ltd (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange under the stock code of 601828 and 1528, respectively). Ms. ZHANG has over 41 years of experience in finance, business operations and corporate management. Prior to joining the Group, Ms. ZHANG's previous work experience primarily includes: consecutively serving in several positions in the Nanjing East Road Banking Sub-office of the Huangpu District Office of the Shanghai Branch of the PBOC from October 1977 to July 1987, including as a clerk and a vice director of the third depository; consecutively serving in several positions in the Huangpu District Office of the Shanghai Branch of the Industrial and Commercial Bank of China (the "ICBC") from July 1987 to September 1992, including as a vice director of Nanjing East Road Banking Sub-office, a deputy head of the Deposit Division, a managing assistant and a vice director; serving as a vice president of the Huangpu Sub-branch of the ICBC from September 1992 to February 1996; consecutively serving in several positions in the Jing'an Sub-branch of the Shanghai Branch of the ICBC from February 1996 to January 2000, including as a vice president and the president; consecutively serving in several positions in the Shanghai Branch of the ICBC from January 2000 to March 2008, including as the director of the Retail Banking Division and the Securities Settlement Business Division, an assistant president, the general manager of the Personal Finance Business Department and a vice president; and serving as the general manager of the Private Banking Department of the ICBC from March 2008 to June 2012. Ms. ZHANG served as the chairman of the Joint Meeting of Private Banking of China Banking Association from July 2011 to November 2012.

Ms. ZHANG obtained a master's degree in economics from Shanghai University of Finance and Economics in Shanghai, the PRC in June 1998; and an executive master's degree of business administration from the Executive Master of Business Administration program co-sponsored by the Shanghai National Accounting Institute and the Arizona State University in June 2005. She graduated from the DBA Global Finance Program of Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University in Shanghai, the PRC, and obtained a doctor's degree of business administration in Global Financial Management from Arizona State University in May 2015. Ms. ZHANG obtained the qualification of Senior Economist by the ICBC in August 1997. She was accredited the certificate of independent director qualification from the Shanghai Stock Exchange in September 2012. Ms. ZHANG was awarded the title of "National Financial Woman Pace-Setter (全國金融紅旗手)" by the PBOC in April 1981; the "Model Award of 'Shanghai Woman Pace-Setter' for the Years 2003-2004 (2003-2004年度上海市'三八紅旗手'標兵獎)" by the Shanghai Women's Federation (上海市婦女聯合會) and the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源與社會保障局) in March 2005; and "Shanghai Financial Talent (上海金融人才獎)" by the Shanghai Financial Work Committee of Communist Party and Shanghai Financial Services Office of the Central Committee of the CPC (中共上海市金融工作委員會和上海市金融服務辦公室) in March 2004.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. ZHANG is currently a vice president of the Association of Shanghai Internet Financial Industry (上海市互聯網金融協會).

Save as disclosed above, none of the Directors held any directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus. Save as disclosed herein, to the best knowledge, information and belief of the Directors and having made all reasonable inquiries, there were no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules. None of the Directors have any interests in any businesses, other than our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business.

### SENIOR MANAGEMENT

For details of the biography of **Mr. ZHOU Ye**, see “—Directors—Executive Directors” in this section.

For details of the biography of **Ms. MU Haijie**, see “—Directors—Executive Directors” in this section.

For details of the biography of **Mr. JIN Yuan**, see “—Directors—Executive Directors” in this section.

**Mr. JIANG Jingyu (姜靖宇)**, aged 48, was appointed as a vice President of the Company in March 2018. He is also a vice president of China PnR and a vice president of PnR Data and the general manager of its product and information center. Mr. JIANG has over 25 years of experience in software and technology development and operation and corporate management. Prior to joining the Group, Mr. JIANG's previous work experience primarily includes: consecutively serving in several positions in Shanghai Huateng Software System Co., Ltd. (上海華騰軟件系統有限公司) from November 1993 to February 2006, including as a project manager, manager of the development department and a vice president; and as a deputy general manager of Shanghai NTT Data Synergy Software Co., Ltd. (上海恩梯數據晉恒軟件有限公司) from March 2006 to March 2014. Mr. JIANG joined the Group in March 2014 and has consecutively served in several positions, including as a deputy general manager of the No.1 development department of Shanghai Huifu Technology Ltd. and the general manager of the information center of PnR Data. He served in PnR Data as the chief technology officer from January 2015 to December 2015, and as a vice president since January 2016.

Mr. JIANG obtained a bachelor's degree of engineering in computer applications in Shanghai Jiao Tong University in Shanghai, the PRC in July 1992.

**Mr. HUA Lei (花蕾)**, aged 36, was appointed as the vice President of the Company in March 2018. He is a vice president of China PnR, a vice president of PnR Data and a supervisor of Golden Union Chengdu Financial Information Service Co., Ltd. (金百合成都金融信息服務有限公司). He also serves as a non-executive director of Paytech Technology Ltd. and Paytech (Hongkong) Technology Limited. Mr. HUA has over 10 years of experience in strategy consulting, marketing and sales and corporate management. Prior to joining the Group, Mr. HUA's previous work experience primarily includes: consecutively serving in several positions, including as a technician, a facility supervisor and a deputy head (in charge of operations) of the factory division of Cold Rolled Section Steel Plant

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## DIRECTORS AND SENIOR MANAGEMENT

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Construction Engineering Design & Research Institute (寶鋼建築工程設計研究院冷彎型鋼廠) (currently known as Shanghai Baosteel Steel Co., Ltd. (上海寶鋼型鋼有限公司)) from August 2003 to August 2009; and the senior consulting manager of Adfaith Management and Consulting Co., Ltd. (正略鈞策管理諮詢公司) from June 2011 to June 2012. Mr. HUA consecutively served in several positions in China PnR and PnR Data from February 2013 to December 2016, including as a director of the business planning department of China PnR, and the general manager of the business management center, general manager of the micro and small channel business department, the general manager of the payment business department and as an assistant president of PnR Data.

Mr. HUA obtained a bachelor's degree in automation (computer control) from Donghua University in Shanghai, the PRC in July 2003 and a master's degree in business administration from Antai College of Economics and Management of Shanghai Jiao Tong University in Shanghai, the PRC in June 2011. Mr. Hua currently studies for the EMBA courses at China Europe International Business School in Shanghai, the PRC. He was awarded the “New Long March Pace-Setter (新長征突擊手)” of Baosteel Group Corporation (上海寶鋼集團公司, currently known as China BaoWu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)) for the Year of 2004 by the Committee of Youth League of Shanghai Baosteel Group Corporation in April 2005.

### JOINT COMPANY SECRETARIES

For details of the biography of **Mr. JIN Yuan**, see “—Directors—Executive Directors” in this section.

**Ms. SO Shuk Yi Betty (蘇淑儀)**, was appointed as a Joint Company Secretary of the Company in May 2018. Ms. SO currently serves as an assistant vice president of SWCS Corporate Group (Hong Kong) Limited (a professional services provider specializing in corporate services), responsible for managing company secretarial work for several listed companies. Ms. SO has over 20 years of experience in the corporate secretarial field.

Ms. SO received a Master of Law degree from the City University of Hong Kong and a Master of Business Administration degree from the University of Leicester in 2004 and 1999, respectively. She 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 since 1997.

### BOARD COMMITTEES

The Company has established three Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Audit Committee, the Remuneration Committee and the Nomination Committee.

#### Audit Committee

The Audit Committee of the Company consists of three independent non-executive Directors of the Company, namely Mr. WANG Hengzhong, Mr. LIU Jun and Ms. ZHANG Qi. Mr. WANG Hengzhong currently serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are:

1. to review significant financial policies of the Company and their implementation, and supervise the financial activities of the Company;

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## DIRECTORS AND SENIOR MANAGEMENT

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2. to review the financial information and relevant disclosures of the Company;
3. to consider and approve the risk management and internal control evaluation proposal of the Company, and supervise and evaluate the risk management and internal control of the Company;
4. to consider and approve the audit budget, remuneration of staff and appointment and dismissal of major officers of the Company, supervise and evaluate the work of internal audit of the Company and formulate the medium- to long-term audit plan, annual working plan and internal audit system setting plan of the Company as authorized by the Board, and report to the Board;
5. to propose the appointment or dismissal of an external accounting firm, supervise the work of the external accounting firm, and evaluate the report of the external accounting firm to ensure that the external accounting firm undertakes its audit responsibilities;
6. to facilitate communications and monitor the relationship between the internal audit department and the external accounting firm;
7. to monitor any non-compliance of the Company in respect of the financial reports and its risk management and internal controls; and
8. other matters required by laws, regulations, regulatory documents, the rules of the securities regulatory authority of the place where the Shares of the Company are listed and the requirements of the Memorandum and the Articles of Association, and as authorized by the Board.

### **Nomination Committee**

The Nomination Committee of the Company consists of two independent non-executive Directors, namely Mr. LIU Jun, Ms. ZHANG Qi and one executive Director, namely Mr. ZHOU Ye. Mr. ZHOU Ye currently serves as the chairman of the Nomination Committee. The primary duties of the Nomination Committee are:

1. to formulate procedures and standards for the election of Directors and senior management and make recommendations to the Board on the proposed procedures and standards;
2. to make recommendations to the Board on the nomination of candidates for Director, President and secretary of the Board;
3. to preliminarily examine the eligibility of candidates for Director and senior management positions;
4. to make recommendations to the Board on the nomination of candidates for chairmen and members of the Board committees; and
5. other matters required by laws, regulations, regulatory documents, the rules of the securities regulatory authority of the place where the Shares of the Company are listed and the requirements of the Memorandum and the Articles of Association, and as authorized by the Board.

### **Remuneration Committee**

The Remuneration Committee of the Company consists of two independent non-executive Directors, namely Ms. ZHANG Qi, Mr. WANG Hengzhong, and one executive Director, namely

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. ZHOU Ye. Ms. ZHANG Qi currently serves as the chairwoman of the Remuneration Committee. The primary duties of the Remuneration Committee are:

1. to organize and formulate the remuneration policy and plan of Directors and senior management and submit to the Board for approval, and propose the remuneration distribution plan according to the performance evaluation of Directors and senior management and submit to the Board for approval; and
2. other matters required by laws, regulations, regulatory documents, the rules of the securities regulatory authority of the place where the Shares of the Company are listed and the requirements of the Memorandum and the Articles of Association, and as authorized by the Board.

### REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company offers the executive Directors and senior management, as its employees, with remuneration in the form of salaries, allowances, benefits in kind, performance-related bonuses, share-based payments, pensions, and other social insurance benefits. Non-executive Directors and Independent non-executive Directors receive compensation according to their duties (including serving as members or chairmen of the Board committees).

For the three years ended December 31, 2015, 2016 and 2017, the aggregate remuneration before tax paid to our Directors and senior management was approximately RMB4.3 million, RMB4.3 million and RMB11.6 million, respectively. In accordance with the arrangements currently in force, the aggregate remuneration before tax payable to the Directors for the year ending December 31, 2018 is estimated to be approximately RMB4.4 million (excluding discretionary bonus and any options granted pursuant to the Pre-IPO Share Option Scheme).

For the three years ended December 31, 2015, 2016 and 2017, the aggregate remuneration before tax provided for our five highest paid individuals by the Group was approximately RMB4.6 million, RMB4.6 million and RMB11.8 million, respectively. During the Track Record Period, no remuneration was paid by the Group or received by any Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the Track Record Period, none of the Directors waived any remuneration. Save as disclosed above, during the Track Record Period, there were no other payments paid or payable to our Directors or five highest paid individuals by the Company or any of its subsidiaries.

For the details of the service contracts and appointment letters that we have entered into with our Directors, see “Appendix IV—Statutory and General Information—C. Further Information about our Directors—1. Particulars of Directors’ service contracts and appointment letters.”

### Pre-IPO Share Option Scheme

In order to incentivize our Directors, senior management, connected persons and other grantees for their contribution to our Group and to attract and retain suitable personnel to our Group, we adopted the Pre-IPO Share Option Scheme. See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme.”

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the date of the Listing of our Shares on the Stock Exchange and ending on the date on which the Company distributes the annual report in respect of the financial results for the first full financial year commencing after the date of the Listing, or the date on which the agreement between the Compliance Adviser and us is terminated, whichever is earlier.

The Compliance Adviser shall provide the Company with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines, and acting as one of the channels of communication between the Company and the Stock Exchange when necessary.

The Company agrees to indemnify the Compliance Adviser for actions against and losses incurred by the Compliance Adviser arising out of, or in connection with, certain events, including the performance by the Compliance Adviser of its duties under the agreement between the Compliance Adviser and us.

The Compliance Adviser will act as an additional channel of communication between the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the options granted under the Pre-IPO Share Option Scheme are not exercised, the following persons are expected to have an interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of shareholder	Nature of interest	Shares held immediately prior to the Global Offering		Shares held immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised)		Shares held immediately following the completion of the Global Offering (assuming the Over-allotment Option is exercised in full)	
		Number	Percentage	Number	Percentage	Number	Percentage
PnR Holdings	Beneficial interest	2	0.00%	2	0.00%	2	0.00%
Management Company <sup>(1)</sup>	Beneficial interest and interest in controlled corporation	142,200,000	13.86%	142,200,000	11.36%	142,200,000	11.06%
Mr. ZHOU Ye <sup>(1)</sup>	Interest in controlled corporations	142,200,000	13.86%	142,200,000	11.36%	142,200,000	11.06%
Trixen	Beneficial interest	307,800,000	29.99%	307,800,000	24.60%	307,800,000	23.95%
Mr. Putera Sampoerna <sup>(2)</sup>	Interest in controlled corporation	307,800,000	29.99%	307,800,000	24.60%	307,800,000	23.95%
Eight Roads Ventures	Beneficial interest	125,556,987	12.24%	125,556,987	10.03%	125,556,987	9.77%
FIL Limited <sup>(3)</sup>	Interest in controlled corporations	125,556,987	12.24%	125,556,987	10.03%	125,556,987	9.77%
Asia Partners II L.P. <sup>(3)</sup>	Interest in controlled corporation	125,556,987	12.24%	125,556,987	10.03%	125,556,987	9.77%
FIL Capital Management Limited <sup>(3)</sup>	Interest in controlled corporations	125,556,987	12.24%	125,556,987	10.03%	125,556,987	9.77%
Keytone Ventures, L.P.	Beneficial interest	18,296,740	1.78%	18,296,740	1.46%	18,296,740	1.42%
Keytone Capital Partners, L.P. <sup>(4)</sup>	Interest in controlled corporation	18,296,740	1.78%	18,296,740	1.46%	18,296,740	1.42%
Keytone Investment Group, Ltd. <sup>(4)</sup>	Interest in controlled corporations	18,296,740	1.78%	18,296,740	1.46%	18,296,740	1.42%
Keytone Ventures II, L.P.	Beneficial interest	109,780,440	10.70%	109,780,440	8.77%	109,780,440	8.54%
Keytone Capital Partners II, L.P. <sup>(4)</sup>	Interest in controlled corporation	109,780,440	10.70%	109,780,440	8.77%	109,780,440	8.54%
Keytone Investment Group II, Ltd. <sup>(4)</sup>	Interest in controlled corporations	109,780,440	10.70%	109,780,440	8.77%	109,780,440	8.54%
Mr. ZHOU Joe <sup>(4)</sup>	Interest in controlled corporations	128,077,180	12.48%	128,077,180	10.23%	128,077,180	9.97%
Bain PnR	Beneficial interest	230,416,159	22.45%	230,416,159	18.41%	230,416,159	17.93%
Bain Capital PnR Holdings, L.P. <sup>(5)</sup>	Interest in controlled corporation	230,416,159	22.45%	230,416,159	18.41%	230,416,159	17.93%
Bain Capital Asia Fund II, L.P. <sup>(5)</sup>	Interest in controlled corporation	230,416,159	22.45%	230,416,159	18.41%	230,416,159	17.93%
Bain Capital Partners Asia II, L.P. <sup>(5)</sup>	Interest in controlled corporation	230,416,159	22.45%	230,416,159	18.41%	230,416,159	17.93%
Bain Capital Investors, LLC <sup>(5)</sup>	Interest in controlled corporations	230,416,159	22.45%	230,416,159	18.41%	230,416,159	17.93%

*Note:*

(1) Upon the completion of the Global Offering, Management Company will directly hold 142,199,998 Shares and indirectly hold 2 Shares (through PnR Holdings, its wholly owned subsidiary) (all of which were Ordinary Shares) in our Company. Management Company is owned as to 60% by Mr. ZHOU Ye. Therefore, Mr. ZHOU Ye is deemed to be interested in the 142,200,000 Shares directly and indirectly held by Management Company for purpose of Part XV of the SFO.



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## SUBSTANTIAL SHAREHOLDERS

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- (2) As of the Latest Practicable Date, Trixen was wholly owned by Mr. Putera Sampoerna. Therefore, Mr. Putera Sampoerna is deemed to be interested in the 307,800,000 Shares held by Trixen for purpose of Part XV of the SFO.
- (3) As of the Latest Practicable Date, Eight Roads Ventures was owned as to 61.07% by FIL Limited. In addition, the general partner of Eight Roads Ventures is Asia Partners II L.P., whose general partner is FIL Capital Management Limited, which is wholly-owned by FIL Limited. Therefore, FIL Limited, Asia Partners II L.P. and FIL Capital Management Limited are deemed to be interested in the 125,556,987 Shares held by Eight Roads Ventures for purpose of Part XV of the SFO.
- (4) As of the Latest Practicable Date, Keytone Ventures, L.P. was directly controlled by Keytone Capital Partners, L.P. as a general partner, which was in turn controlled by Keytone Investment Group. Ltd. as a general partner. Keytone Ventures II, L.P. was directly controlled by Keytone Capital Partners II, L.P. as a general partner, which was in turn controlled by Keytone Investment Group II, Ltd. as a general partner. Therefore, Keytone Investment Group II, Ltd. and Keytone Capital Partners II, L.P. are deemed to be interested in the 109,780,440 Shares directly held by Keytone Ventures II, L.P. for purpose of Part XV of the SFO. Keytone Investment Group. Ltd. and Keytone Investment Group II, Ltd. were wholly owned by Mr. ZHOU Joe. Therefore, Mr. ZHOU Joe is deemed to be interested in the 128,077,180 Shares collectively and directly held by Keytone Ventures, L.P. and Keytone Capital Partners II, L.P. for purpose of Part XV of the SFO.
- (5) Based on the information provided by Bain PnR, each of the following entities are deemed under the SFO to be interested in the Shares to be held by Bain PnR as described herein: (i) Bain Capital PnR Holdings, L.P., a Cayman Islands limited partnership, which holds a 100% interest in Bain PnR; (ii) Bain Capital Asia Fund II, L.P., a Cayman Islands limited partnership, which holds a 65.05% interest in Bain Capital PnR Holdings, L.P. as a limited partner; (iii) Bain Capital Partners Asia II, L.P., a Cayman Islands limited partnership, which is the general partner of Bain Capital Asia Fund II, L.P.; and (iv) Bain Capital Investors, LLC, a Delaware limited liability company, which is the general partner of Bain Capital PnR Holdings, L.P.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital 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 date result in a change of control of our Company.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering:

	<u>Aggregate nominal value of Shares (HK\$)</u>
<b><u>As of the Date of this Prospectus</u></b>	
Authorized share capital	
3,800,000,000 Ordinary Shares of HK\$0.0001 each .....	380,000
Issued share capital	
1,026,199,361 Shares of HK\$0.0001 each .....	102,619.9361
<b><u>Immediately after Completion of the Global Offering<sup>(1)</sup></u></b>	
Shares to be issued under the Global Offering	
225,263,600 Shares of HK\$0.0001 each .....	22,526.3600
Total issued Shares immediately after completion of the Global Offering	
1,251,462,961 Shares of HK\$0.0001 each .....	125,146.2961

*Note:*

(1) The above table assumes that (i) the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering and (ii) the Over-allotment Option is not exercised, and no option granted under the Pre-IPO Share Option Scheme is exercised. The above table also does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

### RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Upon completion of the repurchase and at the time of Listing, our Company will have only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may be subject to the provisions of the Cayman Companies Law to reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See “Appendix III—Summary of the Constitution of the Company and Cayman Islands Companies Law—1. Memorandum and Articles of Association—(b) Shares—(iii) Alteration of capital” for further details.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme); and
- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed “—General Mandate to Repurchase Shares” in this section.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See “Appendix IV—Statutory and General Information—A. Further Information about Our Group—4. Resolutions of the Shareholders of our Company dated May 20, 2018” for further details.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are 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—4. Resolutions of the Shareholders of our Company dated May 20, 2018”.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum and Articles of Association or any other applicable laws to be held; or

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## SHARE CAPITAL

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- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

See “Appendix IV—Statutory and General Information—A. Further Information about our Group—4. Resolutions of the Shareholders of Our Company dated May 20, 2018” for further details.

### **PRE-IPO SHARE OPTION SCHEME**

We adopted the Pre-IPO Share Option Scheme. See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Scheme” for further details.

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## CORNERSTONE INVESTOR

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### THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement (the “**Cornerstone Investment Agreement**”) with Shanghai Lianyin Venture Capital Co., Ltd. (上海聯銀創業投資有限公司, “**Lianyin Venture Capital**”, the “**Cornerstone Investor**”) who has agreed, through designated entities (including qualified domestic institutional investors), to subscribe for such number of Shares (rounded down to the nearest whole board lot of 400 Shares) which may be purchased with an amount of HK dollars equivalent to RMB80,000,000 at the Offer Price.

Lianyin Venture Capital was established as a limited liability company in Shanghai, the PRC in 2004. It is a wholly-owned subsidiary of UnionPay, which is primarily engaged in investment, investment management and investment consulting businesses. UnionPay is an association for China’s banking card industry. Leveraging its unionpay interbank clearing and settlement system, UnionPay promotes the interconnection and resources sharing between commercial banks, and ensures the interbank, interregional and cross-boarder use of banking cards.

Assuming the Offer Price of HK\$6.50 (being at the low end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investor would be approximately 15,121,600 Shares, representing approximately (i) 6.71% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 1.21% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 1.18% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$7.50 (being at the mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investor would be approximately 13,105,600 Shares, representing approximately (i) 5.82% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 1.05% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 1.02% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$8.50 (being at the high end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investor would be approximately 11,563,600 Shares, representing approximately (i) 5.13% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 0.92% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 0.90% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

For illustration purpose, all descriptions in this section do not take into account of Shares which may be issued upon the exercise of the Options which have been granted under the Pre-IPO Share Option Scheme.

To the best knowledge of our Company, the Cornerstone Investor is an Independent Third Party and is not our connected person (as defined in the Listing Rules). The Cornerstone Investor will acquire the Offer Shares pursuant to, and as part of, the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.08 of the

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## CORNERSTONE INVESTOR

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Listing Rules. The Cornerstone Investor will not have any representation on the Board or become a substantial Shareholder of our Company upon completion of the Global Offering, and will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreement.

The Offer Shares to be subscribed by the Cornerstone Investor may be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering—The Hong Kong Public Offering—Reallocation” in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement to be issued by us on or before June 14, 2018.

### CONDITION PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements;
- (b) the Listing Committee having granted the listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the Shares;
- (c) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or in the Cornerstone Investment Agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;
- (d) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investor under the Cornerstone Investment Agreement are accurate and true in all respects and not misleading and that there is no material breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investor; and
- (e) the respective representations, warrants, undertakings and confirmations of the Company are true in all material respects and not misleading.

### RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Shares it has purchased pursuant to the Cornerstone Investor Agreement, save for transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

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## FINANCIAL INFORMATION

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

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make 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 results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and “Forward-Looking Statements” and elsewhere in this prospectus.*

### OVERVIEW

We are a leading independent third-party payment service provider in China, focusing on merchant payment and fintech enabling services.

Our principal business lines are:

- **Merchant Payment Services:** We provide various merchant payment services to millions of micro and small merchants as well as companies in select industry verticals. Our solutions enable clients to offer their customers a seamless, convenient and safe way to pay regardless of whether such payments are made in-store, online, or on-the-go. Our merchant payment services are divided into five types, consisting of POS, Internet payment, mobile POS, mobile payment and cross-border payment services.
- **Fintech Enabling Services:** Building on our strong payment technological capabilities, we also provide fintech enabling services to Internet finance providers and commercial banks which empower them to improve their information visibility, operation efficiency and data security, and enable them to offer more flexibility and convenience when serving their customers. Our services include software as a service, or SaaS offerings, such as account management services and data-driven value-added services.

In 2015, 2016 and 2017, we generated revenue of RMB555.7 million, RMB1,094.8 million and RMB1,726.3 million, respectively; and had a net loss of RMB7.6 million and a net profit of RMB118.7 million and RMB132.8 million, respectively.

### BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with the IFRS which comprise all standards and interpretations approved by the International Accounting Standards Board and is presented in Renminbi unless otherwise stated. All IFRS effective for the accounting period commencing from January 1, 2017, together with the relevant transitional provisions, have been early adopted by us in the preparation of historical financial information throughout the Track Record Period. Our historical financial information has been prepared primarily under the historical cost convention, except for certain available-for-sale investments which have been measured at fair value.

Our Company is an investment holding company incorporated in the Cayman Islands with limited liability. During the Track Record Period, the subsidiaries now comprising our Group were

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involved in the principal activities of merchant payment services and fintech enabling services in the PRC through China PnR and its subsidiary. In November 2006, our subsidiary, PnR Network was incorporated in the PRC. As a result of the Contractual Arrangements among PnR Network, China PnR and the Registered Shareholders, PnR Network has rights to variable returns from its involvement with China PnR and has the ability to affect such returns through its power over China PnR. Therefore, China PnR was accounted for as a subsidiary of our Company. See “Contractual Arrangements” for further details.

In preparation for the Global Offering, we have undergone a series of corporate reorganizations. For details about our Reorganization, see “History and Reorganization.” Our Company became the holding company of the companies now comprising the Group on December 25, 2017. As the insertion of our Company as a new holding entity above an existing company has not resulted in any change of economic substance, our historical financial information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

#### Market and Economic Conditions

Most of our business depends upon the overall level of economic conditions and consumer spending in China. A sustained deterioration in the general economic conditions in China, including turmoil in the economy, reduction in household disposal income, distresses in financial markets, reduced market liquidity, as well as increased government intervention, may reduce the number of our clients, especially micro and small merchants, the amount of payments made by our clients’ customers as well as market demand for our fintech enabling services. As a result, our financial performance could be adversely affected.

In particular, our merchant payment services mainly depend on the growth and the prospects of micro and small merchants in China. These merchants have historically been underserved by financial institutions and had relatively limited access to payment services. We focus on providing integrated payment solutions to these micro and small merchants that appeal to their needs for convenient, efficient and affordable services. As of December 31, 2017, we had over five million micro and small merchants. Compared to their large-sized counterparts, these merchants generally are engaged in businesses with lower barriers of entry and of smaller transaction volume. These micro and small merchants also have more limited financial resources, which make them more susceptible to adverse changes in market, economic and regulatory conditions in China. In addition to micro and small merchants, we also provide payment and fintech enabling services to select industry verticals, such as Internet finance, airline ticketing, and ecommerce, all of which depend upon the overall level of economic conditions and consumer spending in China.

In addition, the third-party payments industry in China has benefited from the gradual migration from traditional POS services to mobile POS services. This migration has been driven by user convenience, card issuer incentives, technology development, new payment forms, and regulatory supports. Additionally, broader merchant acceptance in industries that did not typically accept



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third-party payments in the past, such as micro and small merchants, is helping drive the migration. If the migration slows down or stops, the payment volume we process may not grow at the current rapid pace or it may even decrease, which in turn could adversely affect our business and financial condition.

### **Regulatory Environment**

The third-party payments business in China is an emerging and evolving market. The applicable laws, rules and regulations are continuously developing and evolving. Our results of operations, financial condition and prospects are subject to the changes in the regulatory environment, such as changes relating to payment processing and settlement, consumer protection, foreign exchange, and anti-money laundering. We believe that our ability to broaden the scope of our services and expand our business geographically has been, and will continue to be, materially affected by changes in the policies, laws and regulations governing the PRC third-party payments industry. In particular, the policies, laws and regulations could restrict the business models, fee structures and business scopes we could adopt which in turn could affect our business, financial position, results of operations and future prospects. See “Regulatory Environment” and “Risk Factors—Risks Relating to Our Business and Industry—Changes in the regulation on the centralized deposit and supervision of client reserve funds by the PBOC may adversely affect our interest income and client experience.”

### **Payment Volume**

In 2015, 2016 and 2017, we derived 86.2%, 92.4% and 94.0% of our revenue from our merchant payment services. As a result, the volume of payments we process is crucial for our revenue and profit. The payment volume we processed increased from RMB448.6 billion in 2015, and RMB641.9 billion in 2016 to RMB1,140.0 billion in 2017. In addition to the market and economic conditions discussed above, the payment volume we process is also affected by our market shares and client base, and our ability to attract high-value clients.

We offer merchant payment services and solutions to a large number of merchants. Our payment volume growth has been largely driven by the expansion of our client base. As of December 31, 2017, we had an extensive client base which covers over five million micro and small merchants and over 1,500 Internet finance providers, among other clients. We believe there is still a huge potential to further grow our client base and our market shares. If we fail to attract and retain clients or increase our market shares, the payment volume we process may decrease, which may adversely affect our revenue and profit.

### **Pricing**

Pricing for our merchant payment services is another key element that affects our results of operations. The service fee rate we charge is largely driven by market competition and affected by regulatory requirements.

We operate in evolving markets characterized by intense competition, continuous changes in customer needs and payment technologies, as well as frequent introductions of new services and solutions. We expect competition to intensify in the future as existing and new competitors introduce new services or enhance existing services. Our competitors may have greater financial resources and larger bases of customers than we do, which may provide them with significant competitive advantages. These companies may devote greater resources to the development, promotion, and provision of services and solutions. They may also offer lower prices for their services and solutions,

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or more effectively introduce their innovative services and solutions, which could adversely affect our market share. In 2017, we reduced our service fee rate for mobile POS services in order to quickly expand our client base and increase our market share amid intense market competition.

Our pricing is also affected by changes in regulatory requirements. Before September 6, 2016, the processing fee rate for POS services was based on the nature of the merchant's industry and the processing fees were shared among the issuing bank, the payment service provider and UnionPay in the proportion of approximately 70%, 20% and 10%, respectively. Effective from September 6, 2016, the service fee rate for a third-party payment service provider like us is largely market-driven. See "Business—Our Businesses—Merchant payment services—POS—Pricing" and "Regulatory Environment—Regulations on payment services of non-financial institutions—Regulations on bankcard acquiring business—Pricing mechanism of bankcard transaction fee."

### **Relationships with Partners and Suppliers**

Partners and suppliers are critical to our business. We collaborate with ISOs, UnionPay, commercial banks and payment terminals suppliers, and we pay fees to them for their sales network, payment gateways or payment terminals. We believe our ability to strengthen our relationship and bargaining power with these partners and suppliers has affected, and will continue to affect, our profitability.

Our commission and fees paid to ISOs have historically been important to our cost of sales. Our ability to expand our client base through our ISO network while controlling ISO commission and client acquisition costs is critical to our results of operations in the future. In addition, if we fail to expand or strengthen our relationship with commercial banks, and enhance our bargaining power on processing fees, our costs of payment processing may increase significantly, which may adversely affect our profitability in the future. Our purchase costs of payment terminals also depend on our cooperations with our major suppliers of payment terminals.

### **Ability to Offer New Services and Solutions**

The third-party payments industry has experienced rapid technological innovation. New payment technologies such as biometric authentication, big data analytics and artificial intelligence have facilitated the increasing acceptance of third-party payments. These new services and technologies may render obsolete the services we currently offer or be superior to the technologies we currently use to provide them. Incorporating new technologies into our services and solutions may require substantial expenditures and time, and we may not be successful in realizing a return on such efforts in a timely manner or at all. We cannot assure you that any new services and technologies we develop and offer to our merchants will achieve commercial acceptance. Failure to respond effectively to market developments may significantly affect our business prospects. If we fail to develop and commercialize new products and solutions, we may lose our clients and market shares and become less profitable. See "Risk Factors—Risks Relating to Our Business and Industry—Failure to continually enhance our service and solution offerings or timely respond to the technological or other changes in the rapidly evolving third-party payments market could jeopardize our businesses and prospects."

### **Risk Management**

We are subject to a variety of risks, primarily fraud risk, money laundering risk, legal and compliance risk, IT risk, liquidity risk and operational risk. We have established robust, comprehensive

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and technology-driven risk management to effectively manage and mitigate risks inherent in our business, and to help us meet regulatory obligations. We also have a well-established risk management structure. See “Business—Risk Management.” However, we cannot assure you that our risk management and internal control systems will be able to identify, prevent and manage all risks. Our information technology system may not be adequate for the collection, analysis and processing of industry and company data, and our historical data and experience may not be able to adequately reflect risks that may emerge from time to time in the future. As a result, our risk management methods and techniques may not be effective in directing us to take timely and appropriate measures in risk management and internal controls. In addition, we cannot assure you that the implementation of our risk management and internal controls by our employees will not involve any human errors or mistakes, which may materially and adversely affect our business and results of operations. Furthermore, if we fail to timely adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected. See “Risk Factors—Risks Relating to Our Business and Industry—Our risk management and internal control systems may not be adequate or effective in all respects and could materially and adversely affect our business and results of operations.”

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

We have identified certain accounting policies and estimates significant to the preparation of our financial statements in accordance with IFRS. The Accountant’s Report in Appendix I to this prospectus sets forth these significant accounting policies in note 2.4, which are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 3 of the Accountants’ Report in Appendix I to this prospectus. The preparation of our financial statements requires our management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result, in the future, in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected.

Our management has identified, below, the accounting policies, estimates and judgments that it believes are critical to the preparation of our financial statements.

#### **Significant Accounting Policies**

##### ***Revenue recognition***

Revenue is recognized when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(a) Merchant payments

We provide comprehensive payment services to help clients accept, process and settle payment transactions across POS, Internet payment, mobile POS, and mobile payment scenarios. Revenue from the rendering of merchant payment services is recognized when services are rendered, provided that the revenue and the costs can be measured reliably. In particular, timing of revenue recognition of each major type of services is:

- POS—Revenue is recognized in step 7 of the diagram as illustrated in “Business—Merchant Payment Services—POS”, when we send the confirmed results to the POS terminal of the merchants.

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Mobile POS payments are processed in the same way as POS payments.

- Internet payments—Revenue is recognized in step 9 of the diagram as illustrated in “Business—Merchant Payment Services—Internet payments” when we forward the confirmed results to the merchants.

Mobile payments are processed in the same way as Internet payments.

- Cross-border payments are processed in a similar way as the above two types of services. Revenue from such services is recognized when services are rendered.
- We are also responsible for providing ongoing updates of system and technical support for the operation of the whole business of our clients. Given that our efforts are evenly expended throughout the period, and the contract term of such services is within one year, such revenue is recognized on a straight-line basis over the period when services are rendered and the revenue can be measured reliably.

We operate our merchant payment business through cooperation with various industry participants who provide the services and infrastructure needed to enable such transactions. We adopted gross revenue recognition methods for the merchant payment services. Revenue is recognized at gross amount, and commission fee charged by these participants, and processing fee charged by issuing banks or UnionPay is recorded in cost of sales, except the processing fee for issuing banks and the interchange fee for UnionPay which have been deducted by them directly in POS payments and mobile POS payments.

We take into account various factors when determining whether our revenue should be reported on a gross or net basis. The primary factor is whether we are acting as a principal in offering services to customers or as an agent in the transaction. We have determined that we are acting as the principal in offering services wherever we: (i) are the primary obligor in the arrangement; (ii) have latitude in establishing the selling price; (iii) have discretion in suppliers selection; and (iv) have involvement in the determination of product or services specifications.

### *(b) Fintech enabling services*

We have been developing and commercializing an increasing range of fintech enabling services for clients, which help Internet finance providers and other financial institutions in China to better design and administer customer account systems, identify and mitigate risks, comply with changing regulations, and conduct data-driven marketing activities.

Revenue from fintech enabling services is recognized ratably over the respective contract periods with the Internet finance providers and other financial institutions. The upfront fee received is recognized over the period of the benefit of the fee.

### *(c) Sales of payment terminals*

Revenue from the sale of payment terminals is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the payment terminals sold.

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### *(d) Rental income*

Rental income is recognized on a time proportion basis over the lease terms.

### *(e) Interest income*

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### *(f) Dividend income*

Dividend income is recognized when the shareholders' right to receive payment has been established.

## ***Investments and other financial assets***

### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that we commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in profit or loss. The loss arising from impairment is recognized in profit or loss in finance cost for loans and in other expenses for receivables.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and dividend is recognized in profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

We evaluate whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, we are unable to trade these financial assets due to inactive markets, we may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

### ***Derecognition of financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from our consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- we have transferred our rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) we have transferred substantially all the risks and rewards of the asset, or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred our rights to receive cash flows from an asset or have entered into a pass-through arrangement, we evaluate if and to what extent we have retained the risk and rewards of ownership of the asset. When we have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, we continue to recognize the transferred asset to the extent of our continuing involvement. In that case, we also recognize an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that we have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay.

### ***Impairment of financial assets***

We assess at the end of each year whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of

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the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, we first assess whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Trade receivable and prepayments, deposits and other receivables meeting the following criteria are recognized as bad debts:

- the debtor is deceased or has been declared bankrupt and the debts remain uncollectible after considering the assets of the bankrupt or the estate of the deceased debtor; and
- debts that are long overdue and where there is also evidence indicating that the debts are uncollectible or the possibility of collection is remote.

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Specific and general provisions are made to account for bad debt losses on trade receivables and prepayments, deposits and other receivables. A specific provision refers to an amount that is provided based on management's assessment of the recoverability of an individual receivable. A general provision is set up on the remaining balances of receivables based on their aging analysis, at the rates below:

<u>Aging</u>	<u>Rates</u>
Less than three months .....	0%
Four-six months .....	20%
7-12 months .....	50%
One-two years .....	80%
Over two years .....	100%

We assess at the end of each year whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

We first assess whether objective evidence of impairment exists for financial assets that are individually significant. For financial assets that objective evidence of impairment exists, for instance, those balances relating to the wide-spread fraudulent card transactions as described in this prospectus, we make full impairment provision of them. Where no objective evidence of impairment exists for an individually assessed financial asset, we assess the financial assets with similar credit risk characteristics collectively for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Except for the impairment of other receivables which are individually assessed as mentioned above, trade and other receivables are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Given the huge transaction volumes with low unit transaction amount, and the customers not having other relevant factors such as geographical location, we determine aging as the most appropriate characteristic for credit risk evaluation. Aging is relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay the amounts of the assets being evaluated.

For collective evaluation of impairment of trade and other receivables, we use a provisioning matrix based on aging analysis, namely, 0% if less than three months, 20% if four to six months, 50% if 7 to 12 months, 80% if one to two years and 100% if more than two years. We are of the opinion that this provisioning matrix is reasonable based on the following assessment: (a) we revisited the historical loss experience for assets with similar credit risk characteristics and noted the actual loss are largely consistent with the provision matrix; (b) since three months is a normal reconciliation cycle for us to perform reconciliation with banks, it's reasonable not to record impairment for amounts aging within three months. From the historical data, a portion of amounts are still collected for those amounts aging between one to two years. For those amounts aging over two years, the chances of recovery are remote; (c) we made an estimated discount cash flows analysis and noted the results are close to the one using provision matrix. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss



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experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Based on the above analysis, our Reporting Accountants concurred with our position of (i) making a general provision in performing collective evaluation of impairment on trade and other receivables; and (ii) using provision matrix for the purposes of calculating the impairment loss.

### *Available-for-sale financial investments*

For available-for-sale financial investments, we assess at the end of each year whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss—is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, we evaluate, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated statement of profit or loss and other comprehensive income if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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### *Property, plant and equipment and depreciation*

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings . . . . .	2.71%
Leasehold improvement . . . . .	2.86%-33.33%
Plant and machinery . . . . .	19%-33.33%
Motor vehicles . . . . .	19%
Office equipment . . . . .	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts, and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the consolidated statement of profit or loss and other comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost, less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### *Share-based payments*

We operate a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees (including directors) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (the “**Equity-settled Transactions**”).

The cost of Equity-settled Transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external value using a binomial model, further details of which are given in note 30 of the Accountant’s Report in Appendix I to this prospectus.

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The cost of Equity-settled Transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for Equity-settled Transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognized at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of our best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancelation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either we or the employee are not met. However, if a new award is substituted for the canceled award, and is designated as a replacement award on the date that it is granted, the canceled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### **PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

#### **Revenue**

Our revenue during the Track Record Period represents income from our two main business lines, merchant payment services and fintech enabling services, and, to a much lesser extent, other revenue.

#### ***Merchant payment services revenue***

Our merchant payment services generate revenue primarily from our provision of POS, mobile POS, Internet payment, mobile payment and cross-border payment services.

- Our revenue from the provision of POS services is consisted of service fees relating to the POS payment volume we processed and sales of POS terminals. We do not lease our POS terminals or generate rental income.

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- Our revenue from the provision of mobile POS services is consisted of service fees relating to the mobile POS payment volume we processed, sales of mobile POS accessories and technical support service fees from new clients. We do not lease our mobile POS accessories or generate rental income.
- Our revenue from the provision of Internet payment services represents service fees relating to the Internet payment volume we processed.
- Our revenue from the provision of mobile payment services represents service fees relating to the mobile payment volume we processed.
- Our revenue from the provision of cross-border payment services represents service fees relating to the cross-border payment volume we processed.

### ***Fintech enabling services revenue***

Our revenue from provision of various fintech enabling services principally includes service fees for providing account management services to Internet finance providers, service fees for providing technology and operation support to custodian banks, and commission from our data-driven value added services.

### ***Others***

Our other revenue primarily includes service fees from the provision of supporting services and rental income from our provision of office premises to certain of our affiliated entities that were no longer members of our Group as a result of the Reorganization. See “History and Reorganization—Our Reorganization.”

### **Cost of sales**

Our cost of sales primarily include the following:

- *Commission and fees*: representing commission and fees paid to ISOs and other channel partners for merchant development.
- *Processing fee*: representing fees paid to commercial banks for connecting to their payment gateways, and fees paid to UnionPay and commercial banks for their settlement services, primarily in our mobile and Internet payment services. This processing fee does not include the processing fee for issuing banks and the interchange fee for UnionPay which have been deducted by them directly in POS payments and mobile POS payments.
- *Depreciation of payment terminals*: representing the depreciation of our payment terminals deployed to merchants.
- *Customer identification fee*: representing fees we paid to third-party data providers for customer identification.
- *Cost of payment terminals*: representing cost of our purchase of payment terminals which we subsequently sell to our clients.
- *Others*: primarily representing cost of upgrading and maintaining account management systems for Internet finance providers and providing technology and operation support to custodian banks in our fintech enabling services.

### **Selling and marketing expenses**

Our selling and marketing expenses primarily include staff cost, and advertising and business development fees. Our staff cost primarily include wages and salaries, equity-settled share option

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expense, pension scheme contributions and other social welfare of our sales and marketing staff. Our advertising and business development fees are typically associated with our selling and marketing activities.

### **Administrative expenses**

Our administrative expenses primarily include (i) staff cost, (ii) office and other administrative expenses, (iii) professional service fees, and (iv) depreciation and amortization.

Our staff cost primarily include wages and salaries, equity-settled share option expense, pension scheme contributions and other social welfare for our administrative staff. Our office and other administrative expenses are typically associated with the daily activities of our administrative staff, principally including traveling and conference expenses. Our professional service fees primarily include consulting fees and auditor's remuneration. Our depreciation and amortization primarily include (i) depreciation of our property, plant and equipment, and (ii) amortization of our intangible assets, such as software.

### **Research and development expenses**

Our research and development expenses primarily include (i) staff cost, (ii) outsourcing fees, and (iii) depreciation and amortization.

Our staff cost primarily include wages and salaries, equity-settled share option expense, pension scheme contributions and other social welfare for our research and development staff. Our outsourcing fees primarily includes fees we paid to third-party IT services providers. Our depreciation and amortization primarily include (i) depreciation of our information technology systems, and (ii) amortization of our intangible assets, such as software.

### **Finance costs**

Our finance costs include interest expenses on bank borrowings and other borrowings.

Our interest expense on bank borrowings represents the interest we paid to commercial banks for borrowings.

Our interest expense on other borrowings represents our interest incurred on structured financing. During the Track Record Period, we financed our purchases of certain investment products through structured financing and incurred interest expense. As of December 31, 2017, all of our structured financing products were either matured or sold to third parties.

### **Other expenses**

Our other expenses primarily include impairment of other receivables and loss on disposal of property, plant and equipment.

Our impairment of other receivables primarily represents our impairment of chargebacks caused by fraudulent transactions. Our loss on disposal of property, plant and equipment primarily represents our loss on disposal of certain payment terminals as they became obsolete.

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### Other income and gains, net

Our other income and gains, net primarily include (i) interest income, (ii) investment income on available-for-sale investments, (iii) government grants, and (iv) foreign exchange differences, net.

Our interest income includes interest primarily generated from client reserve funds and, to a much lesser extent, from our own cash deposits with banks and other financial institutions. In 2015, 2016 and 2017, we generated RMB23.1 million, RMB34.7 million and RMB60.0 million, respectively, of interest income from the designated bank accounts for our client reserve funds. Relevant PBOC regulations require all third-party payment service providers in China to deposit, starting from 2018, an increasing proportion of their client reserve funds to centralized depository accounts, which are supervised and monitored by the PBOC. Such funds will no longer be interest bearing, thus we expect our interest income from client reserve funds to decrease gradually from 2018. See “Business—Our Businesses—Merchant payment services—POS” and “Business—Client Reserve Funds.”

Our investment income on available-for-sale investments represents net realized gains from our investment in certain investment products that are classified as available-for-sale financial assets. As of December 31, 2017, a large proportion of our available-for-sale investments that were outstanding as of December 31, 2016 were either matured or sold to third parties.

Our government grants primarily include the fiscal grants from the government for our business innovations and research and development projects.

Our foreign exchange differences primarily include the net gains caused by: (i) changes in the exchange rate of US dollar against Renminbi in our US dollar deposits; and (ii) changes in the exchange rate between Renminbi and foreign currencies in our cross-border payment services. See “Business—Our Businesses—Merchant payment services—Cross-border payments.”

### Income tax expense

We are subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, our subsidiaries incorporated in the Cayman Islands are not subject to any income tax. One of our subsidiaries in China, PnR Data, was qualified as a high and new technology enterprise in August 2015 and is entitled to a reduced income tax rate of 15% for three years until August 2018 when we intend to renew such qualification. Additionally, PnR Data was also qualified as a key software enterprise and was entitled to a further reduced income tax rate of 10% for 2016 and 2017. Qualification of a key software enterprise for tax purposes is reviewed and renewed annually, normally during the year that follows the current taxable year.

As a result, our effective income tax rate was 15.0%, and 14.5% for 2016 and 2017, respectively. As of the Latest Practicable Date, we did not have any dispute with any tax authority.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors, effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. During the Track Record Period, we did not have any plan to require our PRC subsidiaries to distribute their retained earnings, and intended to retain them to operate and expand our business in China.

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### NON-IFRS FINANCIAL MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use three non-IFRS measures, including EBITDA, adjusted EBITDA and adjusted net profits/ (loss), as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these three non-IFRS measures facilitate comparisons of operating performance from period to period and company to company, by eliminating potential impacts of items that our management does not consider indicative of our operating performance. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the EBITDA, adjusted EBITDA and adjusted net profit/ (loss) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define our EBITDA as profit/ (loss) for the year adjusted by adding income tax expense, finance costs, depreciation of property, plant and equipment and amortization of intangible assets. We define our adjusted EBITDA as EBITDA adjusted by adding equity-settled share option expense. We define adjusted net profit/ (loss) as profit/ (loss) for the year adjusted by adding equity-settled share option expense. The following table reconciles our EBITDA, adjusted EBITDA and adjusted net profit/ (loss) for the periods presented, with the most directly comparable financial measures calculated and presented in accordance with the IFRS, which is profit/ (loss) for the year:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Reconciliation of profit/ (loss) for the year to EBITDA and adjusted EBITDA			
Profit/ (loss) for the year	(7.6)	118.7	132.8
Add:			
Income tax expense	11.1	21.0	22.6
Finance costs	1.5	15.2	22.3
Depreciation of property, plant and equipment	15.5	27.1	117.2
Amortization of intangible assets	6.1	7.0	8.1
<b>EBITDA</b>	<b>26.6</b>	<b>189.0</b>	<b>303.0</b>
Add:			
Equity-settled share option expense	1.9	1.2	33.7
<b>Adjusted EBITDA</b>	<b>28.5</b>	<b>190.2</b>	<b>336.7</b>
	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Reconciliation of profit/ (loss) for the year to adjusted net profit/ (loss)			
Profit/ (loss) for the year	(7.6)	118.7	132.8
Add:			
Equity-settled share option expense	1.9	1.2	33.7
<b>Adjusted net profit/ (loss)</b>	<b>(5.7)</b>	<b>119.9</b>	<b>166.5</b>

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### RESULTS OF OPERATIONS

The following table summarizes our results of operations for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
<b>Revenue</b> .....	<b>555.7</b>	<b>1,094.8</b>	<b>1,726.3</b>
Cost of sales .....	(297.5)	(630.7)	(1,159.2)
<b>Gross profit</b> .....	<b>258.2</b>	<b>464.1</b>	<b>567.0</b>
Selling and marketing expenses .....	(65.2)	(81.9)	(95.0)
Administrative expenses .....	(118.0)	(146.0)	(215.9)
Research and development expenses .....	(79.8)	(93.3)	(130.8)
Finance costs .....	(1.5)	(15.2)	(22.3)
Share of losses of associates .....	(0.0)	(9.7)	(7.1)
Other expenses .....	(75.2)	(72.5)	(65.3)
Other income and gains .....	85.1	94.1	124.7
<b>Profit before tax</b> .....	<b>3.6</b>	<b>139.7</b>	<b>155.4</b>
Income tax expense .....	(11.1) <sup>(1)</sup>	(21.0)	(22.6)
<b>Profit/(loss) for the year</b> .....	<b>(7.6)</b>	<b>118.7</b>	<b>132.8</b>
Profit/(loss) attributable to:			
Owners of the parent .....	(7.6)	125.2	138.2
Non-controlling interests .....	—	(6.5)	(5.4)
	<b>(7.6)</b>	<b>118.7</b>	<b>132.8</b>

(1) We had RMB11.8 million of expenses not deductible for income tax in 2015, mainly consisting of impairment of other receivables, equity-settled share option expense and advertising and business development fees which exceeded the deductible benchmark as stipulated in the EIT Law. As no impairment of other receivables was approved to be deducted from the assessable income, we did not recognize such impairment of other receivables as deferred tax assets. Instead, we treated it as expenses not deductible for income tax.

The following discussion compares the major components of our operating results in 2015, 2016 and 2017.

### Revenue

The following table summarizes our revenue for the years indicated:

	Year ended December 31,					
	2015		2016		2017	
	Revenue	% of revenue	Revenue	% of revenue	Revenue	% of revenue
	(RMB in millions except %)					
<b>Merchant Payment Services</b> .....	<b>478.9</b>	<b>86.2%</b>	<b>1,012.0</b>	<b>92.4%</b>	<b>1,622.8</b>	<b>94.0%</b>
—Mobile POS Services <sup>(1)</sup> .....	72.9	13.1	704.9	64.4	1,208.2	70.0
—Internet Payment Services <sup>(2)</sup> .....	233.0	41.9	187.6	17.1	240.2	13.9
—Mobile Payment Services <sup>(3)</sup> .....	37.7	6.8	70.9	6.5	92.1	5.3
—POS Services <sup>(4)</sup> .....	135.2	24.3	47.7	4.4	68.3	4.0
—Cross-border Payment Services <sup>(5)</sup> .....	—	—	0.9	0.1	14.0	0.8
<b>Fintech Enabling Services</b> .....	<b>74.7</b>	<b>13.4</b>	<b>69.6</b>	<b>6.4</b>	<b>99.9</b>	<b>5.8</b>
<b>Others</b> .....	<b>2.1</b>	<b>0.4</b>	<b>13.1</b>	<b>1.2</b>	<b>3.5</b>	<b>0.2</b>
<b>Total</b> .....	<b>555.7</b>	<b>100.0%</b>	<b>1,094.8</b>	<b>100.0%</b>	<b>1,726.3</b>	<b>100.0%</b>

(1) Our service fees from processing mobile POS payments were RMB52.6 million, RMB634.1 million and RMB1,157.1 million in 2015, 2016 and 2017, respectively.

(2) All of our revenue from Internet payment services during the Track Record Period represented service fees from processing Internet payments.

(3) All of our revenue from mobile payment services during the Track Record Period represented service fees from processing mobile payments.



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- (4) Our service fees from processing POS payments were RMB130.4 million, RMB42.9 million and RMB68.1 million in 2015, 2016 and 2017, respectively.
- (5) All of our revenue from cross-border payment services during the Track Record Period represented service fees from processing cross-border payments.

### *Comparisons between 2017 and 2016*

Our revenue increased by 57.7% to RMB1,726.3 million in 2017 from RMB1,094.8 million in 2016, as a result of our revenue growth in both our merchant payment services and fintech enabling services.

Our revenue from merchant payment services increased by 60.4% to RMB1,622.8 million in 2017 from RMB1,012.0 million in 2016, as a result of our revenue growth in all types of payment services:

- Revenue from our mobile POS services increased by 71.4% to RMB1,208.2 million in 2017 from RMB704.9 million in 2016, primarily due to a significant increase in the mobile POS payment volume we processed from RMB238.4 billion in 2016 to RMB603.7 billion in 2017 as a result of (i) the increase in our micro and small merchant clients from 1.6 million as of December 31, 2016 to 5.8 million as of December 31, 2017, due primarily to our promotion of mobile POS payments and related value-added services, such as *SuPay* mobile POS solution, and more effective ISO management and incentive schemes, and (ii) the continued growth and popularity of mobile POS payments among merchants and consumers in China.
- Revenue from our POS services increased by 43.2% to RMB68.3 million in 2017 from RMB47.7 million in 2016, primarily due to (i) a 13.7% increase in the POS payment volume we processed from RMB49.0 billion in 2016 to RMB55.7 billion in 2017, as a result of our enhanced collaboration with ISOs and partnering with SaaS providers, and (ii) an increase in our average service fee rate for our POS services from 9bps in 2016 to 12bps in 2017 as we increased our pricing following the promulgation of a new regulation in September 2016 which changed government pricing to market-driven pricing for third-party POS service providers.
- Revenue from our mobile payment services increased by 29.9% to RMB92.1 million in 2017 from RMB70.9 million in 2016, primarily due to a 33.2% increase in the mobile payment volume we processed from RMB115.5 billion in 2016 to RMB153.9 billion in 2017. Revenue from our Internet payment services increased by 28.0% to RMB240.2 million in 2017 from RMB187.6 million in 2016, primarily due to a 34.8% increase in the Internet payment volume we processed from RMB238.7 billion in 2016 to RMB321.7 billion in 2017. Both increases in payment volume we processed are as a result of our continuing efforts to expand our client base, particularly in Internet finance.
- Revenue from our cross-border payment services increased significantly to RMB14.0 million in 2017 from RMB0.9 million in 2016, primarily due to a significant increase in the cross-border payment volume we processed from RMB0.3 billion in 2016 to RMB4.9 billion in 2017, as a result of the increased number of our cross-border ecommerce clients.

Our revenue from fintech enabling services increased by 43.5% to RMB99.9 million in 2017 from RMB69.6 million in 2016, primarily due to the increased number of custodian banks using our technology and operation support.

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### *Comparisons between 2016 and 2015*

Our revenue increased significantly to RMB1,094.8 million in 2016 from RMB555.7 million in 2015, principally as a result of a strong revenue growth from our merchant payment services, partially offset by a decrease in our revenue from our fintech enabling services.

Our revenue from merchant payment services increased significantly to RMB1,012.0 million in 2016 from RMB478.9 million in 2015, primarily due to the increase in our revenue from mobile POS services, partially offset by the decreases in our revenue from POS and Internet payment services.

- Revenue from our mobile POS services increased significantly to RMB704.9 million in 2016 from RMB72.9 million in 2015, primarily due to a significant increase in the mobile POS payment volume we processed from RMB25.6 billion in 2015 to RMB238.4 billion in 2016, driven by an increase in our micro and small merchant clients from 0.3 million as of December 31, 2015 to 1.6 million as of December 31, 2016 due primarily to our launch of mobile POS services in 2015 targeting micro and small merchants.
- Revenue from our POS services decreased by 64.7% to RMB47.7 million in 2016 from RMB135.2 million in 2015, primarily due to a gradual decrease of POS payment volume from RMB156.0 billion in 2015 to RMB49.0 billion in 2016, as a result of (i) the gradual suspension of our POS services in 15 provincial-level regions in 2015, which accounted for 45.0%, or RMB70.2 billion, of our total payment volumes processed in 2015 but reduced to none in 2016; and (ii) our focus on developing mobile POS services in 2016. See “Business—Risk Management—Enterprise Risk Management—Fraud Risk.”
- Revenue from our mobile payment services increased by 88.1% to RMB70.9 million in 2016 from RMB37.7 million in 2015, primarily due to an 81.6% increase in the mobile payment volume we processed from RMB63.6 billion in 2015 to RMB115.5 billion in 2016 as a result of our continuing efforts to expand our client base, particularly in Internet finance.
- Revenue from our Internet payment services decreased by 19.5% to RMB187.6 million in 2016 from RMB233.0 million in 2015, primarily due to a decrease in payment volume from airline ticketing agencies in 2016 as major airlines in China were switching from sales primarily through travel agencies to direct sales as required by PRC regulations promulgated in early 2016.
- We derived an insignificant amount of revenue from our cross-border payment services in 2016 as we launched our cross-border payment services in the same year.

Our revenue from fintech enabling services decreased slightly to RMB69.6 million in 2016 from RMB74.7 million in 2015, primarily due to the decreased number of online lending platforms using our account management services due to uncertainties in the regulatory environment over Internet finance providers.

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### Cost of sales

The following table sets forth our cost of sales by nature for the years indicated:

	Year ended December 31,					
	2015		2016		2017	
	Cost	% of cost	Cost	% of cost	Cost	% of cost
	(RMB in millions except %)					
Commission and fees .....	165.5	55.6%	379.3	60.1%	831.5	71.7%
—ISOs .....	111.0	37.3	355.4	56.3	802.7	69.2
—Other channel partners .....	54.5	18.3	23.9	3.8	28.8	2.5
Processing fee .....	88.1	29.6	124.6	19.8	189.8	16.4
—Commercial banks .....	78.5	26.4	105.0	16.7	164.3	14.2
—UnionPay .....	9.6	3.2	19.6	3.1	25.5	2.2
Depreciation of payment terminals .....	5.5	1.8	18.7	3.0	98.3	8.5
Customer identification fee .....	4.3	1.4	10.4	1.6	23.7	2.0
Cost of payment terminals .....	24.4	8.2	88.9	14.1	3.8	0.3
Others .....	9.7	3.3	8.8	1.4	12.1	1.0
<b>Total</b> .....	<b>297.5</b>	<b>100%</b>	<b>630.7</b>	<b>100%</b>	<b>1,159.2</b>	<b>100%</b>

### Comparisons between 2017 and 2016

Our cost of sales increased by 83.8% to RMB1,159.2 million in 2017 from RMB630.7 million in 2016. This increase is generally in line with our revenue growth, reflecting a significant increase in our revenue from all types of payment services as well as from fintech enabling services. The increase was primarily due to (i) a significant increase of RMB452.2 million or 119.2% in our commission and fees, as the payment volume of our newly acquired mobile POS clients through ISOs has increased significantly, (ii) an increase of RMB65.2 million or 52.3% in processing fee paid to commercial banks and UnionPay, as a result of the increased payment volume we processed, and (iii) a significant increase of RMB79.6 million or 425.7% in depreciation of payment terminals, primarily due to our increased deployment of mobile POS accessories as part of our *SuPay* mobile POS solution. The foregoing increase was partially offset by a decrease of RMB85.1 million or 95.7% in our cost of payment terminals as we shifted from selling payment terminals to deploying such terminals which we owned in 2017.

### Comparisons between 2016 and 2015

Our cost of sales increased significantly by 112.0% to RMB630.7 million in 2016 from RMB297.5 million in 2015. This increase is generally in line with our revenue growth, reflecting a significant increase in mobile POS payment volume. The increase was primarily due to (i) a significant increase of RMB213.8 million or 129.2% in commission and fees, which is in line with the increased payment volume we processed, (ii) a significant increase of RMB64.5 million or 264.3% in the cost of payment terminals, reflecting an increased sales of payment terminals in 2016, and (iii) an increase of RMB36.5 million or 41.4% in processing fee, as a result of the increased payment volumes we processed.

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### Gross profit

The following table summarizes our gross profit and profit margin for the years indicated:

	Year ended December 31,								
	2015			2016			2017		
	Gross profit	% of gross profit	Gross margin	Gross profit	% of gross profit	Gross margin	Gross profit	% of gross profit	Gross margin
	(RMB in millions except %)								
<b>Merchant Payment</b>									
<b>Services</b> . . . . .	<b>194.1</b>	<b>75.2%</b>	<b>40.5%</b>	<b>402.3</b>	<b>86.7%</b>	<b>39.8%</b>	<b>482.5</b>	<b>85.1%</b>	<b>29.7%</b>
—Mobile POS Services . . . .	23.4	9.1	32.1	245.6	52.9	34.8	252.5	44.5	20.9
—Internet Payment									
Services . . . . .	109.8	42.5	47.1	100.7	21.7	53.7	135.0	23.8	56.2
—Mobile Payment									
Services . . . . .	18.5	7.2	49.1	45.3	9.8	63.9	64.5	11.4	70.0
—POS Services . . . . .	42.3	16.4	31.3	10.3	2.2	21.6	23.1	4.1	33.8
—Cross-border Payment									
Services . . . . .	—	—	—	0.4	0.1	40.1	7.4	1.3	52.7
<b>Fintech Enabling</b>									
<b>Services</b> . . . . .	<b>62.7</b>	<b>24.3</b>	<b>83.9</b>	<b>58.6</b>	<b>12.6</b>	<b>84.2</b>	<b>84.3</b>	<b>14.9</b>	<b>84.4</b>
<b>Others</b> . . . . .	<b>1.4</b>	<b>0.5</b>	<b>66.7</b>	<b>3.1</b>	<b>0.7</b>	<b>23.7</b>	<b>0.3</b>	<b>0.0</b>	<b>7.8</b>
<b>Total</b> . . . . .	<b>258.2</b>	<b>100.0%</b>	<b>46.5%</b>	<b>464.1</b>	<b>100.0%</b>	<b>42.4%</b>	<b>567.0</b>	<b>100.0%</b>	<b>32.8%</b>

### Comparisons between 2017 and 2016

Our gross profit increased by 22.2% to RMB567.0 million in 2017 from RMB464.1 million in 2016, and our gross margin decreased to 32.8% in 2017 from 42.4% in 2016.

The decrease in our gross margin was primarily due to a decrease in gross margin of our merchant payment services in 2017. Our gross margin of fintech enabling services remained stable at 84.2% and 84.4% in 2016 and 2017, respectively.

Our gross margin of merchant payment services decreased to 29.7% in 2017 from 39.8% in 2016, primarily due to a decrease in our gross margin of mobile POS services, and the increased proportion of our revenue from mobile POS services, partially offset by increases in our gross margins of POS, mobile payment, Internet payment and cross-border payments services.

- Gross margin of mobile POS services decreased to 20.9% in 2017 from 34.8% in 2016 as a result of (i) an increase in our depreciation of payment terminals, due to our increased deployment of mobile POS accessories as part of our offering of *SuPay* mobile POS solution, and (ii) a decrease in our average fee rate for mobile POS services from 27bps in 2016 to 19bps in 2017, reflecting our decision to lower our fee rate to quickly expand our client base and increase our market share amid intense market competition.
- Gross margin of POS services increased to 33.8% in 2017 from 21.6% in 2016 as a result of an increase in our average service fee rate for our POS services from 9bps in 2016 to 12bps in 2017 as we increased our pricing following the promulgation of a new PBOC regulation in September 2016, which changed government pricing to market-driven pricing for POS service providers.
- Gross margin of mobile payment services increased to 70.0% in 2017 from 63.9% in 2016, and gross margin of Internet payment services increased to 56.2% in 2017 from 53.7% in 2016, both as a result of (i) our enhanced bargaining power during fee negotiations with

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commercial banks, which reduced our average fee rate paid to commercial banks for connecting to their payment gateways, particularly relating to payments processed for Internet finance providers that are directly acquired by us, and (ii) an increased proportion of revenue from Internet finance providers where we generally enjoy a higher gross margin.

- Gross margin of cross-border payment services increased to 52.7% in 2017 from 40.1% in 2016 as a result of the growth of our cross-border payment services following its launch in 2016, and the resulting increase in our economies of scale.

### *Comparisons between 2016 and 2015*

Our gross profit increased by 79.7% to RMB464.1 million in 2016 from RMB258.2 million in 2015, while our gross margin decreased to 42.4% in 2016 from 46.5% in 2015.

The decrease in our gross margin was principally due to the increased proportion of our gross profit from merchant payment services. Our gross margin of fintech enabling services remained stable at 83.9% and 84.2% in 2015 and 2016, respectively.

Gross margin of our merchant payment services remained stable at 40.5% and 39.8% in 2015 and 2016, respectively, primarily due to a substantial decrease in our gross margin for POS services, partially offset by increases in our gross margins of mobile payment and Internet payment services.

- Gross margin of POS services decreased to 21.6% in 2016 from 31.3% in 2015, as a result of the reduced economies of scale due to a significant decrease in our POS payment volume.
- Gross margin of mobile payment services increased to 63.9% in 2016 from 49.1% in 2015, and gross margin of Internet payment services increased to 53.7% in 2016 from 47.1% in 2015, both as a result of (i) our enhanced bargaining power during fee negotiations with commercial banks, which reduced our average fee rate paid to commercial banks for connecting to their payment gateways, particularly relating to payments processed for Internet finance providers that are directly acquired by us; and (ii) an increased proportion of revenue from Internet finance providers where we generally enjoy a higher gross margin.
- Gross margin of mobile POS services remained stable in both 2015 and 2016.

### **Selling and marketing expenses**

The following table summarizes our selling and marketing expenses for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Staff cost .....	44.2	55.0	68.2
Advertising and business development fees .....	21.1	26.9	26.8
<b>Total</b> .....	<b>65.2</b>	<b>81.9</b>	<b>95.0</b>

### *Comparisons between 2017 and 2016*

Our selling and marketing expenses increased by 16.0% to RMB95.0 million in 2017 from RMB81.9 million in 2016. This was mainly attributable to an increase of RMB13.2 million in our staff

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cost, primarily due to the increases in our staff salaries as a result of our overall business growth. Our advertising and business development fees remained stable in both 2016 and 2017 due to our cost control measures.

### *Comparisons between 2016 and 2015*

Our selling and marketing expenses increased by 25.4% to RMB81.9 million in 2016 from RMB65.2 million in 2015. This was mainly attributable to an increase of RMB10.8 million in our staff cost, primarily due to the increases in our selling and distribution employees and staff salaries as a result of our overall business growth, and an increase of RMB5.8 million in advertising and business development fees as a result of heightened marketing and business development activities in 2016.

### **Administrative expenses**

The following table summarizes our administrative expenses for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Staff cost .....	55.4	83.6	135.2
Office and other administrative expenses .....	35.5	42.4	40.2
Professional service fees .....	14.5	10.7	24.5
Depreciation and amortization .....	12.6	9.3	16.0
<b>Total</b> .....	<b>118.0</b>	<b>146.0</b>	<b>215.9</b>

### *Comparisons between 2017 and 2016*

Our administrative expenses increased by 47.9% to RMB215.9 million in 2017 from RMB146.0 million in 2016. This was mainly attributable to (i) an increase of RMB51.6 million in our staff cost, primarily due to our equity-settled share option expense and increases in our administrative employees and staff salaries as a result of our overall business growth; (ii) an increase of RMB6.7 million in depreciation and amortization, primarily due to the depreciation cost associated with our headquarters building; and (iii) an increase of RMB13.8 million in professional service fees in relation to the Listing and the Global Offering.

### *Comparisons between 2016 and 2015*

Our administrative expenses increased by 23.7% to RMB146.0 million in 2016 from RMB118.0 million in 2015. This was mainly attributable to an increase of RMB28.2 million in staff cost, primarily due to a significant increase in our number of administrative employees and an increase in staff salaries as a result of our overall business growth.

### **Research and development expenses**

The following table summarizes our research and development expenses for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Staff cost .....	57.4	67.1	99.5
Outsourcing fees .....	17.9	21.4	20.7
Depreciation and amortization .....	4.5	4.8	10.6
<b>Total</b> .....	<b>79.8</b>	<b>93.3</b>	<b>130.8</b>

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### *Comparisons between 2017 and 2016*

Our research and development expenses increased by 40.2% to RMB130.8 million in 2017 from RMB93.3 million in 2016. This was primarily due to an increase in the number of our research and development staff and an increase in their salaries.

### *Comparisons between 2016 and 2015*

Our research and development expenses increased by 16.9% to RMB93.3 million in 2016 from RMB79.8 million in 2015. This was principally due to an increase in the number of our research and development employees and an increase in staff salaries.

### **Other income and gains**

The following table summarizes our other income and gains for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Gain on disposal of subsidiaries .....	—	—	0.2
Gain on disposal of associates .....	—	—	1.5
Interest income .....	26.1	38.3	61.6
Investment income on available-for-sale investments .....	6.8	22.4	29.1
Government grants .....	46.4	29.7	31.8
Foreign exchange differences, net .....	5.6	2.8	—
Others .....	0.2	0.8	0.4
<b>Total</b> .....	<b>85.1</b>	<b>94.1</b>	<b>124.7</b>

### *Comparisons between 2017 and 2016*

Our other income and gains increased by 32.5% to RMB124.7 million in 2017 from RMB94.1 million in 2016. This was due to the increase in our interest income, as a result of the increased average balance of client reserve funds, primarily due to the increased payment volume we processed.

### *Comparisons between 2016 and 2015*

Our other income and gains increased by 10.6% to RMB94.1 million in 2016 from RMB85.1 million in 2015. This was principally as a result of an increase of RMB15.6 million in our investment income on available-for-sale investments, primarily due to our increased purchase of the investment products, and an increase in our interest income, primarily due to an increase in the average balance of our client reserve funds. The foregoing increases were partially offset by a decrease of RMB16.7 million in government grants we recognized, as the government grants were provided on a case-by-case basis, and a decrease in foreign exchange differences due to the decrease in the balance of our US dollar deposits.

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### Other expenses

The following table summarizes our other expenses for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Impairment of other receivables	70.7 <sup>(1)</sup>	43.6	31.6
Impairment of other intangible assets	—	1.8	—
Impairment of goodwill	—	4.1	—
Impairment of available-for-sale investments	3.1	—	—
Foreign exchange differences, net	—	—	2.1
Loss on disposal of property, plant and equipment	0.1	20.2	29.1
Penalty and compensation	0.7	1.7	1.2
Donation	0.5	0.1	1.1
Others	0.1	0.9	0.1
<b>Total</b>	<b><u>75.2</u></b>	<b><u>72.5</u></b>	<b><u>65.3</u></b>

(1) In 2015, we had an impairment of RMB70.7 million on our other receivables, primarily relating to wide-spread fraudulent card transactions in early 2014. See “Business—Risk Management—Enterprise Risk Management—Fraud Risk.”

### Comparisons between 2017 and 2016

Our other expenses decreased by 9.9% to RMB65.3 million in 2017 from RMB72.5 million in 2016. This was primarily attributable to the decrease in our impairment of other receivables, primarily due to our decreased chargeback as a result of our enhanced risk management over fraudulent transactions, partially offset by an increase in our loss on disposal of property, plant and equipment, primarily due to our disposal of obsolete payment terminals.

### Comparisons between 2016 and 2015

Our other expenses decreased slightly to RMB72.5 million in 2016 from RMB75.2 million in 2015. This was principally as a result of the decrease in our impairment of other receivables, primarily due to our decreased chargeback as a result of our enhanced risk management over fraudulent transactions, partially offset by an increase in our loss on disposal of property, plant and equipment, primarily due to our disposal of obsolete payment terminals.

### Finance costs

The following table summarizes our finance costs for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Interest on bank borrowings	1.2	3.1	10.4
Interest on other borrowings	0.3	12.1	11.9
<b>Total</b>	<b><u>1.5</u></b>	<b><u>15.2</u></b>	<b><u>22.3</u></b>

### Comparisons between 2017 and 2016

Our finance costs increased by 46.7% to RMB22.3 million in 2017 from RMB15.2 million in 2016. This was due to an increase in average balance of our bank borrowings. Our interest on other



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borrowings decreased slightly in 2017, as all of our structured financing products were matured or sold to third parties by December 31, 2017. See “—Principal Components of Consolidated Statement of Profit or Loss and Other Comprehensive Income—Finance costs.”

### *Comparisons between 2016 and 2015*

Our finance costs increased significantly to RMB15.2 million in 2016 from RMB1.5 million in 2015. This was principally as a result of an RMB11.8 million increase in our interest on our structured financing products.

### **Share of losses of associates**

Our share of losses of associates increased significantly from RMB45.0 thousand in 2015 to RMB9.7 million in 2016, and decreased by 26.8% to RMB7.1 million in 2017. This was attributable to the net loss of our two associates, as they have been in operation for a short period and had yet to make a profit in 2016 and 2017, and our disposal of these two associates in November 2017 as a result of our Reorganization.

### **Profit before tax**

#### *Comparisons between 2017 and 2016*

As a result of the foregoing, our profit before tax increased by 11.2% to RMB155.4 million in 2017 from RMB139.7 million in 2016.

#### *Comparisons between 2016 and 2015*

As a result of the foregoing, our profit before tax increased significantly to RMB139.7 million in 2016 from RMB3.6 million in 2015.

### **Income tax expense**

#### *Comparisons between 2017 and 2016*

Our income tax expense increased by 7.6% to RMB22.6 million for 2017 from RMB21.0 million for 2016. This was principally as a result of the increase in our taxable income. Our effective income tax rate decreased from 15.0% for 2016 to 14.5% for 2017, due primarily to changes in tax deductible items.

#### *Comparisons between 2016 and 2015*

Our income tax expense increased by 89.2% to RMB21.0 million for 2016 from RMB11.1 million for 2015. This was principally as a result of a significant increase in our taxable income.

In 2015, while we had profit before tax of RMB3.6 million, our income tax expense was RMB11.1 million, as although we made a small amount of profit on a consolidated basis, certain of our subsidiaries made greater profits and were required to pay income tax on an individual basis based on PRC tax regulations.

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### Profit or loss for the year and net profit margin

#### *Comparisons between 2017 and 2016*

As a result of the foregoing, our profit for the year increased by 11.9% to RMB132.8 million in 2017 from RMB118.7 million in 2016. Our net profit margin decreased to 7.7% in 2017 from 10.8% in 2016, primarily due to our equity-settled share option expense and the decrease in our gross margin.

#### *Comparisons between 2016 and 2015*

As a result of the foregoing, we had a net profit of RMB118.7 million in 2016, while we had a net loss of RMB7.6 million in 2015. Our net profit margin increased to 10.8% in 2016.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Historically, we have funded our working capital primarily from cash generated from our business operations, bank borrowings and equity contributions from our shareholders. After the Global Offering, we intend to finance our future capital requirements through the same sources of funds as above, together with the net proceeds we received from the Global Offering. We do not anticipate any changes to the availability of financing to fund our operations in the future.

As of April 30, 2018, we had aggregate cash and cash equivalents of RMB199.7 million.

We are of the opinion that, taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and cash equivalents, our available banking facilities and cash flows from operating activities, our Directors believe that we have sufficient working capital for our present requirements, that is at least 12 months from the date of this prospectus.

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows, assets and liabilities, and indebtedness.

### Cash Flows

The following table sets forth selected cash flow statement information for the years indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Net cash flow (used in)/from operating activities	(46.2)	(439.3)	775.5
Net cash flow used in investing activities	(277.5)	(371.0)	(310.3)
Net cash flow from/(used in) financing activities	232.0	772.6	(336.5)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(91.7)</b>	<b>(37.7)</b>	<b>128.8</b>
Cash and cash equivalents at beginning of year	305.4	213.6	176.0
<b>Cash and cash equivalents at end of year</b>	<b>213.6</b>	<b>176.0</b>	<b>304.7</b>

#### *Net Cash Flow (Used in)/from Operating Activities*

Our cash from operating activities consists primarily of revenue from our merchant payment services and fintech enabling services. Cash flow from operating activities reflects (i) profit before tax

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adjusted for non-cash and non-operating items, such as depreciation, amortization, impairment and investment income on available-for-sale investments; (ii) the effects of movements in working capital; and (iii) other cash items; such as income tax paid.

As further discussed in “—Assets and Liabilities” below, the amount of our client reserve funds fluctuates significantly from time to time based on external factors that are largely unrelated to our financial condition but can cause significant movements in our working capital. As such, our cash flow analysis is not focused on the changes in our client reserve funds, as collectively reflected in our prepayments, deposits and other receivables, restricted cash and other payables, deposits received and accruals.

In 2017, we had net cash generated from operating activities of RMB775.5 million, resulting from our profit before tax of RMB155.4 million, adjustments for non-cash and non-operating items of RMB156.6 million and positive movements in working capital. Our positive movements in working capital primarily reflected (i) an RMB150.5 million increase in our trade payables primarily as a result of our increased purchase of mobile POS accessories reflecting the rapid growth of our mobile POS services in 2017, and (ii) a decrease in our restricted cash (exclusive of cash received on behalf of clients) as a result of a reduction of cash drawdowns from our banking facilities as we enhanced our monitoring and management of client reserve funds so that we were better able to estimate our payment volumes in 2017.

In 2016, we had net cash used in operating activities of RMB439.3 million, resulting from our profit before tax of RMB139.7 million, adjustments for non-cash and non-operating items of RMB69.1 million and negative movements in working capital. Our negative movements in working capital primarily reflected an increase in restricted cash (exclusive of cash received on behalf of clients) as a result of increase in the amount of drawdowns from our banking facilities to enhance client experience and avoid potential delays in our settlement services during holiday seasons starting from the end of 2016.

In 2015, we had net cash used in operating activities of RMB46.2 million, resulting from our profit before tax of RMB3.6 million, adjustments for non-cash and non-operating items of RMB66.1 million and negative movements in working capital. Our negative movements in working capital primarily reflected (i) an increase in restricted cash (exclusive of cash received on behalf of clients) as a result of cash drawdowns from our banking facilities to enhance client experience and avoid potential delays in our settlement services during holiday seasons starting from the end of 2015, and (ii) an RMB68.5 million decrease in trade payable as a result of the decreased payment volume we processed in 2015.

### *Net Cash Flow used in Investing activities*

Our cash outflows from investing activities consist primarily of our purchase of available-for-sale investments, property, plant and equipment and investment in associates. Our cash inflows from investing activities consist primarily of disposal of available-for-sale and other investments.

In 2017, our net cash used in investing activities was RMB310.3 million, due primarily to the net effects of our purchase and disposal of property, plant and equipment of RMB457.9 million, primarily mobile POS accessories, for deploying to our merchant clients.

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In 2016, our net cash used in investing activities was RMB371.0 million, due primarily to the net effects of our acquisition and disposal of available-for-sale and other investments of RMB169.2 million reflecting our cash management activities and our purchase of property, plant and equipment of RMB153.8 million, primarily mobile POS accessories, for deploying to our merchant clients.

In 2015, our net cash used in investing activities was RMB277.5 million, due primarily to the net effect of our acquisition and disposal of available-for-sale and other investments of RMB122.3 million reflecting our cash management activities, our purchase of property, plant and equipment of RMB131.0 million as down payment for the purchase of our new headquarters building.

### *Net Cash Flow from/(used in) Financing activities*

Financing activities primarily include borrowings and payments of borrowings and advances to or from related companies and payments of these advances.

In 2017, our net cash used in financing activities was RMB336.5 million, due primarily to the net cash outflow of RMB351.0 million from our bank and other borrowings and repayment of these borrowings reflecting our financing and cash management activities.

In 2016, our net cash generated from financing activities was RMB772.6 million, due primarily to the net cash inflow of RMB634.6 million from our bank and other borrowings and repayment of these borrowings and the net cash inflow of RMB116.2 million from our advances from related companies and repayment of these advances.

In 2015, our net cash generated from financing activities was RMB232.0 million, due primarily to the net cash inflow of RMB110.4 million from our bank and other borrowings and repayment of these borrowings and net cash inflow of RMB236.0 million from advances from related companies.

### **Assets and Liabilities**

Due to the nature of our business, we have a highly liquid balance sheet. Substantially all of our assets and liabilities are due within one year. We receive, process and transfer a significant amount of funds on behalf of our clients on a daily basis.

The table below sets forth selected information from our consolidated statements of financial position:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Total non-current assets	347.4	604.0	888.6
Total current assets	3,879.0	5,798.8	7,235.5
Total current liabilities	3,817.7	5,855.5	7,382.8
Total non-current liabilities	2.0	7.6	35.0
<b>Total equity</b>	<b>406.7<sup>(1)</sup></b>	<b>539.7</b>	<b>706.2</b>

(1) We had retained losses on our consolidated statements of changes in equity from January 1, 2015 to January 1, 2017 because our accumulated profits generated before 2017 were unable to fully offset the net losses accumulated in the past which was primarily due to the increasing and significant research and development expenses incurred for developing our technology infrastructure and payment solutions. For further information, see “Appendix I—Accountants’ Report—Consolidated Statements of Changes in Equity.”

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### *Current assets and liabilities and adjusted current assets and liabilities*

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2015	2016	2017	April 30, 2018
	(RMB in millions)			(unaudited)
<b>CURRENT ASSETS</b>				
Available-for-sale investments . . . . .	5.1	86.0	70.6	420.1 <sup>(1)</sup>
Inventories . . . . .	6.3	20.9	2.2	2.3
Trade receivables . . . . .	11.4	5.8	21.3	18.9 <sup>(2)</sup>
Due from management personnel . . . . .	100.8	100.0	332.6	—
Due from related companies . . . . .	285.7	282.5	334.9	2.2
Due from the immediate holding company . . . . .	0.6	0.6	0.6	0.6
Prepayments, deposits and other receivables . . . . .	836.4	1,330.4	2,945.0	10,454.2
Tax recoverable . . . . .	0.9	7.6	7.4	7.1
Restricted cash . . . . .	2,418.3	3,789.0	3,216.2	3,154.3
Cash and cash equivalents . . . . .	213.6	176.0	304.7	199.7
<b>Total current assets</b> . . . . .	<b>3,879.0</b>	<b>5,798.8</b>	<b>7,235.5</b>	<b>14,259.2</b>
<b>CURRENT LIABILITIES</b>				
Trade payables . . . . .	53.8	50.6	201.1	439.8
Other payables, deposits received and accruals . . . . .	3,361.0	4,677.9	6,284.8 <sup>(3)</sup>	13,729.5 <sup>(3)</sup>
Advances from customers . . . . .	35.1	7.0	5.2	5.9
Due to related companies . . . . .	236.0	352.2	511.3	8.3
Interest-bearing bank and other borrowings . . . . .	131.8	766.3	380.3	742.5
Tax payable . . . . .	—	1.4	0.1	0.1
<b>Total current liabilities</b> . . . . .	<b>3,817.7</b>	<b>5,855.5</b>	<b>7,382.8</b>	<b>14,926.1</b>
<b>NET CURRENT ASSETS/ (LIABILITIES)</b> . . . . .	<b>61.3</b>	<b>(56.7)</b>	<b>(147.3)</b>	<b>(666.9)</b>

- (1) As we adopted new IFRS 9 from January 1, 2018, our assets that should be classified as available-for-sale investments according to the old IFRS standard were classified as financial assets at fair value through profit or loss as of April 30, 2018 according to the new IFRS. For the purpose of comparability, we set forth such assets as of April 30, 2018 under available-for-sale investments as well in the table.
- (2) As we adopted new IFRS 15 from January 1, 2018, our assets that should be classified as trade receivables according to the old IFRS standard were classified as contract assets as of April 30, 2018 according to the new IFRS. For the purpose of comparability, we set forth such assets as of April 30, 2018 under trade receivables as well in the table.
- (3) As we adopted new IFRS 15 from January 1, 2018, our liabilities that should be classified as deferred revenue in other payables, deposits received and accruals according to the old IFRS standard were classified as contract liabilities as of April 30, 2018 according to the new IFRS. For the purpose of comparability, we set forth such liabilities as of April 30, 2018 under other payables, deposits received and accruals as well in the table. We had nil, nil, RMB82.5 million and RMB69.0 million of deferred revenue as of December 31, 2015, 2016, 2017, and April 30, 2018, respectively.

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We hold client funds in segregated accounts which are payable to our clients, also known as the client reserve funds. See “—Liquidity and Capital Resources—Assets and liabilities—Client reserve funds.” The amount of our client reserve funds fluctuates significantly from time to time based on our clients’ business activities, payment volume, timing of clearing and settlement and other external factors that are largely unrelated to our financial condition but can cause significant changes to our balance sheet. As such, we believe the amount of our client reserve funds is not a meaningful indicator of our current assets and liabilities. We have, therefore, adjusted our assets and liabilities in the following table to exclude the effect of client reserve funds:

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	(RMB in millions)			(unaudited)
Adjusted current assets <sup>(1)</sup>	575.8	974.9	967.4	571.0
Adjusted current liabilities <sup>(2)</sup>	611.7	1,328.0	1,621.6	1,677.4
Adjusted net current liabilities <sup>(3)</sup>	35.9	353.1	654.2	1,106.4

(1) Adjusted current assets equal to total current assets less receivable on behalf of clients and cash received on behalf of clients.

(2) Adjusted current liabilities equal to total current liabilities less payable on behalf of clients.

(3) Adjusted net current liabilities equal to adjusted current assets less adjusted current liabilities.

We had adjusted net current liabilities as of December 31, 2015, 2016 and 2017 as, in line with our capital management policy, we incurred short-term liabilities, such as bank borrowings, payables for the acquisition of building and trade payables, to finance our purchase of long-term assets, such as our headquarters building, payment terminals and certain long-term investment products.

Our adjusted net current liabilities increased by 69.1% to RMB1,106.4 million as of April 30, 2018 from RMB654.2 million as of December 31, 2017, primarily due to a decrease in our adjusted current assets, which was primarily due to our payments of special dividends totalling US\$63.1 million in the first two months of 2018. See “—Dividend.”

Our adjusted net current liabilities increased by 85.3% to RMB654.2 million as of December 31, 2017 from RMB353.1 million as of December 31, 2016 primarily due to (i) an increase of RMB263.3 million in our other payable for acquisition of our new headquarters building; and (ii) an increase of RMB150.5 million in our trade payables, as a result of our increased purchase of mobile POS accessories as part of our offering of *SuPay* mobile POS solution in 2017.

Our adjusted net current liabilities increased significantly to RMB353.1 million as of December 31, 2016 from RMB35.9 million as of December 31, 2015 due to a significant increase in our adjusted current liabilities, which was primarily due to an increase of RMB634.5 million in our interest-bearing bank and other borrowings to finance our purchases of long-term assets, such as available-for-sale investments.

### ***Client reserve funds***

Our client reserve funds are recorded in both of the current assets and liabilities of our consolidated balance sheet. We account for receivable on behalf of clients as current assets upon receiving the notification of payment approval from the issuing bank for a payment (but before we actually receive the funds), and when we receive the funds, we account for the amount as cash received on behalf of clients. We account for payable on behalf of clients as current liabilities upon receiving the notification of payment approval from the issuing bank for a payment.

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### *Prepayments, deposits and other receivables*

Our prepayments, deposits and other receivables mainly comprise receivable on behalf of clients.

The following table sets forth details of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Receivable on behalf of clients .....	952.4	1,479.1	3,082.7
Interest receivable .....	3.0	1.7	1.4
Deposits .....	22.9	21.6	18.1
Other tax recoverable .....	2.8	16.3	56.8
Prepaid expense .....	5.8	4.7	7.0
IPO expense .....	—	—	2.5
Others .....	1.6	2.8	3.8
	988.5	1,526.2	3,172.4
Provision for impairment loss .....	(152.1)	(195.8)	(227.4)
<b>Total</b> .....	<b>836.4</b>	<b>1,330.4</b>	<b>2,945.0</b>

Our prepayments, deposits and other receivables increased significantly during the Track Record Period primarily due to a significant increase in our receivable on behalf the clients which was largely due to the significantly increased payment volume we processed.

According to our accounting policy, we make specific and general provisions on our receivable on behalf of clients based on our management's assessment or aging analysis. Our provision for impairment loss increased during the Track Record Period, which largely reflected our business growth and the resulting increase in chargeback losses, but such increase was slower than the growth of receivable on behalf of clients as a result of our enhanced risk management measures.

### *Restricted cash*

Restricted cash consists of cash received on behalf of clients, amounts pledged to banks as collateral for letters of guarantee and other uses relating to our merchant payment services, and the amount of drawdowns from our banking facilities to enhance client experience and avoid potential delays in our settlement services during the holiday seasons. The following table sets forth details of our restricted cash as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Restricted cash <sup>(1)</sup> .....	2,418.3	3,789.0	3,216.2

(1) Our restricted cash includes RMB47.5 million, RMB 44.2 million and RMB30.8 million of our amounts pledged to banks as collateral for letters of guarantee and other uses relating to our merchant payment services as of December 31, 2015, 2016 and 2017, respectively; and RMB20.0 million, RMB400.0 million and nil of the amount of drawdowns from our banking facilities as of December 31, 2015, 2016 and 2017, respectively.

Our restricted cash decreased by 15.1% to RMB3,216.2 million as of December 31, 2017, from RMB3,789.0 million as of December 31, 2016, primarily due to (i) a decrease in cash received on behalf of clients for online lending platforms, as commercial banks are required by regulations

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promulgated in 2016 to manage such accounts; and (ii) a reduction of cash drawdowns from our banking facilities as we enhanced our monitoring and management of client reserve funds so that we were better able to estimate our payment volumes in 2017.

Our restricted cash increased by 56.7% to RMB3,789.0 million as of December 31, 2016, from RMB2,418.3 million as of December 31, 2015, as a result of (i) an increase in cash received on behalf of clients reflecting an increase in payment volume we processed; and (ii) additional drawdowns from our banking facilities to enhance client experience and avoid potential delays in our settlement during the holiday seasons.

### *Other payables, deposits received and accruals*

Our other payables, deposits received and accruals mainly comprise payable on behalf of clients and deposits. The following table sets forth details of our other payables, deposits, received and accruals as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Payable on behalf of clients	3,206.0	4,527.5	5,761.2
Payable for acquisition of buildings	—	—	263.3
Deferred revenue	—	—	82.5 <sup>(1)</sup>
Payable to the third parties	4.5	6.3	16.2
Deposits	80.5	61.7	57.2
Deferred government grants	29.3	28.3	22.9
Payroll and welfare payable	30.4	39.8	53.6
Other tax payable	4.9	2.4	2.4
Accruals	4.7	10.6	25.2
Others	0.7	1.4	0.3
<b>Total</b>	<b>3,361.0</b>	<b>4,677.9</b>	<b>6,284.8</b>

(1) We provided technical support services to new clients of our mobile POS services in 2017 and received service fees in lump sum at the commencement of a six-month service period. We recognized such service fees ratably over the six-month period during which the services were rendered, and recognized deferred revenue in 2017.

Our other payables, deposits received and accruals increased by 34.4% to RMB6,284.8 million as of December 31, 2017, from RMB4,677.9 million as of December 31, 2016, as a result of significant increase in the payment volume we processed, reflecting our business growth in 2017. Our payable for acquisition of buildings of RMB263.3 million in 2017 represented our final payment payable shortly after receipt of the building certificate for our new headquarters. Our other payables, deposits received and accruals increased by 39.2% to RMB4,677.9 million as of December 31, 2016 from RMB3,361.0 million as of December 31, 2015 as a result of increased payment volume we processed as part of our business growth in 2016 and the resulting increase in payable on behalf of clients.

### *Inventories*

Our inventories primarily consist of payment terminals. Our inventories decreased significantly to RMB2.2 million as of December 31, 2017 from RMB20.9 million as of December 31, 2016, as we shifted from sales of payment terminals to deployment of payment terminals in 2017. Our inventories increased significantly to RMB20.9 million as of December 31, 2016 from RMB6.3 million as of December 31, 2015, primarily reflected that with our increased sales of payment terminals and



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expansion of our business, we have an increased number of payment terminals in stock to meet the increasing demands from merchants for our payment terminals.

As we did not manufacture any of our inventories and we typically order payment terminals from our suppliers only after we received a request from ISOs to deploy payment terminals to a newly acquired merchant, we believe the inventories turnover days are not indicative of our operation status and do not include them in our analysis.

### *Trade receivables*

Our trade receivables mainly represent amounts due from a small number of industry clients for which we grant a short credit period for merchant payment services. The following table sets forth details of our trade receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Trade receivables .....	11.4	5.8	21.3
<b>Total</b> .....	<b>11.4</b>	<b>5.8</b>	<b>21.3</b>

Our trade receivables increased significantly to RMB21.3 million as of December 31, 2017, from RMB5.8 million as of December 31, 2016, as a result of the increased payment volume we processed from these industry clients. Our trade receivables decreased by 49.1% to RMB5.8 million as of December 31, 2016, from RMB11.4 million as of December 31, 2015, as a result of our collection of trade receivables from our clients in 2016.

As of April 30, 2018, RMB19.0 million, or 89.2% of our trade receivables as of December 31, 2017 had been settled.

The following is an aging analysis of our trade receivables based on the invoice date:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Less than one year .....	11.1	5.8	21.3
Over one year .....	0.3	0.0	0.0
<b>Total</b> .....	<b>11.4</b>	<b>5.8</b>	<b>21.3</b>

During the Track Record Period, substantially all of our trade receivables were outstanding for less than one year. Depending on the credit history of our clients and our relationships with them, we typically allow the flexibility by offering a credit period of 30 to 90 days to certain limited number of industry clients. We believe all of our outstanding trade receivables are collectable and we did not make any provisions for the impairment of trade receivables during the Track Record Period.

### *Available-for-sale investments*

The current portion of our available-for-sale investments, which consists of debt investments, decreased by 17.9% to RMB70.6 million as of December 31, 2017, from RMB86.0 million as of December 31, 2016, as a result of maturity and sale of most of our investment products by December 31, 2017. The current portion of our available-for-sale investments increased significantly to

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RMB86.0 million as of December 31, 2016, from RMB5.1 million as of December 31, 2015, as we purchased certain investment products to increase our returns on surplus cash as part of our cash management activities in 2016.

### *Advances from customers*

Advances from customers mainly represent the advance payments received from clients in connection with our sales of payment terminals and service fees prepaid by clients for our account management services to which our services have not been fully rendered at the end of each year of the Track Record Period.

Our advances from customers decreased by 25.7% to RMB5.2 million as of December 31, 2017, from RMB7.0 million as of December 31, 2016, as we shifted from selling payment terminals to deploying such terminals in 2017. Our advances from customers decreased significantly to RMB7.0 million as of December 31, 2016, from RMB35.1 million as of December 31, 2015, as we were gradually shifting from selling payment terminals to deploying such terminals in 2016.

### *Trade payables*

Our trade payables mainly comprise payables to our suppliers of payment terminals and commission fee payable to ISOs and other business partners.

Our trade payables significantly increased to RMB201.1 million as of December 31, 2017, from RMB50.6 million as of December 31, 2016, as a result of (i) the increased payment volume we processed, and (ii) the increased purchase of mobile POS accessories reflecting the rapid growth of our mobile POS services in 2017. Our trade payables remained relatively stable at RMB53.8 million and RMB50.6 million as of December 31, 2015 and December 31, 2016, respectively.

As of April 30, 2018, RMB161.3 million, or 80.2% of our trade payables as of December 31, 2017 had been settled.

The following is an aging analysis of our trade payables based on the invoice date:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Less than 1 year .....	38.8	27.7	175.1
Over 1 year .....	15.0	22.9	26.0
<b>Total</b> .....	<b>53.8</b>	<b>50.6</b>	<b>201.1</b>

As of December 31, 2015, 2016 and 2017, our trade payables that had been outstanding for more than one year represented 27.9%, 45.3% and 12.9% of our total trade payables, respectively. The trade payables are generally non-interest bearing and we settle most of our trade payables within one to three months while some of our suppliers granted us a credit period from three to nine months.

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### *Non-current assets and liabilities*

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

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment .....	39.0	145.5	836.1
Prepaid acquisition payment .....	118.4	121.9	—
Other intangible assets .....	32.5	29.8	38.5
Investments in associates .....	27.2	80.3	0.4
Available-for-sale investments .....	128.1	224.8	11.8
Deferred tax assets .....	2.1	1.7	1.8
<b>Total non-current assets .....</b>	<b><u>347.4</u></b>	<b><u>604.0</u></b>	<b><u>888.6</u></b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings .....	—	—	35.0
Deferred tax liabilities .....	2.0	—	—
Provision .....	—	7.6	—
<b>Total non-current liabilities .....</b>	<b><u>2.0</u></b>	<b><u>7.6</u></b>	<b><u>35.0</u></b>
<b>NET ASSETS .....</b>	<b><u>406.7</u></b>	<b><u>539.7</u></b>	<b><u>706.2</u></b>

Our non-current assets consist primarily of available-for-sale investment, property, plant and equipment, and prepaid acquisition payment. Our property, plant and equipment consist primarily of our office buildings, motor vehicles, office equipment and construction in progress. Our prepaid acquisition payment consist primarily of prepayment for acquisition of property, plant and equipment and prepayment for acquisition of other intangible assets, such as software purchased from third-party vendors. Our non-current liabilities primarily include interest-bearing bank and other borrowings.

Our non-current assets increased by 47.1% to RMB888.6 million as of December 31, 2017 from RMB604.0 million as of December 31, 2016, due primarily to an increase of RMB690.6 million in our property, plant and equipment, primarily as our headquarters was completed and became operational in 2017, and we owned an increased number of payment terminals for deploying to our merchant clients. The foregoing increase was partially offset by (i) a decrease of RMB121.9 million in our prepaid acquisition payment, primarily as our headquarters building was completed, and (ii) a decrease of RMB213.0 million in our available-for-sale investments, primarily as a result of the maturity and our disposal of most of our investment products.

Our non-current assets increased by 73.9% to RMB604.0 million as of December 31, 2016 from RMB347.4 million as of December 31, 2015, due primarily to (i) an increase of RMB106.5 million in property, plant and equipment as a result of our down payment for the purchase of our headquarters building; (ii) an increase of RMB96.7 million in available-for-sale investments as a result of our increased investments in certain long-term investment products; and (iii) an increase of RMB53.1 million in investments in our associates.

### **INDEBTEDNESS**

Other than our operating cash flow, we also finance our working capital using bank borrowings, and structured financing products which we classify as other borrowings. As of April 30, 2018, the

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latest date for determining our indebtedness, the aggregate balance of our interest-bearing bank and other borrowings was RMB777.5 million.

As of December 31, 2015 and 2016, all of our borrowings were short-term and would mature within one year. As of December 31, 2017 and April 30, 2018, our short-term borrowings amounted to RMB380.3 million and RMB742.5 million, respectively; and our long-term borrowings amounted to RMB35.0 million and RMB35.0 million, respectively.

The following table sets forth a breakdown our interest-bearing bank and other borrowings as of the dates indicated:

	As of December 31,			As of
	2015	2016	2017	April 30, 2018
	(RMB in millions)			(unaudited)
<b>Short-term</b>				
Bank borrowings (unsecured) .....	41.4	416.3	380.3	343.9
Bank borrowings (secured) .....	—	117.3	—	398.6
Other borrowings (unsecured) .....	90.4	232.7	—	—
	<u>131.8</u>	<u>766.3</u>	<u>380.3</u>	<u>742.5</u>
<b>Long-term</b>				
Bank borrowings (unsecured) .....	—	—	35.0	35.0
<b>Total</b> .....	<u><b>131.8</b></u>	<u><b>766.3</b></u>	<u><b>415.3</b></u>	<u><b>777.5</b></u>

As we grow our business, our demand for working capital increases. In addition to obtaining unsecured working capital loans from PRC commercial banks, we also leveraged our US dollar cash deposits as collateral to obtain secured bank borrowings in 2016. Additionally, we maintain facilities with a number of PRC commercial banks to support our short-term liquidity needs, such as to increase cash in our accounts holding client reserve funds to enhance client experience and avoid potential delays in our same-day settlement services during the holiday seasons. As of April 30, 2018, we had banking facilities of RMB1,505.0 million in aggregate, of which RMB1,005.5 million were unutilized and unconditional.

As an alternative to bank borrowings, we also used structured financing products to finance our cash management activities. The balance of our structured financing products increased from RMB90.4 million as of December 31, 2015 to RMB232.7 million as of December 31, 2016. All of our structured financing products were matured or sold to third parties by December 31, 2017.

Apart from the foregoing, we did not have, as of April 30, 2018, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities. As of April 30, 2018, there was no material covenant on any of our outstanding borrowings.

In January and February 2018, as part of our Reorganization, we borrowed two short-term bank loans of HK\$355.0 million and US\$17.7 million at annual interest rates of 2.3% and 3.3%, respectively, both due January 2019. We intend to use a portion of the net proceeds from the Global Offering to partially repay the principal amounts and interests of these bank borrowings. See “Future Plans and Use of Proceeds — Use of Proceeds.”

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### CONTINGENT LIABILITIES

As of December 31, 2015, 2016 and 2017, we did not have any material contingent liabilities.

### CAPITAL EXPENDITURE

Our capital expenditures primarily comprise expenditures for the purchase of property, plant and equipment, intangible assets and other long-term assets. The following table sets forth our capital expenditures for the years presented:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Purchase of property, plant and equipment . . . . .	131.0	153.8	458.6
Purchase of intangible assets and other long-term assets . . . . .	3.2	7.6	10.6
<b>Total</b> . . . . .	<b>134.2</b>	<b>161.4</b>	<b>469.2</b>

In 2015, 2016 and 2017, our capital expenditures were primarily related to the purchase of our headquarters building, our IT hardware and software and payment terminals. We funded these expenditures primarily with cash generated from our operations and bank borrowings.

We estimated that our capital expenditures for 2018 will be approximately RMB500.0 million, which we will use primarily for our purchase of mobile POS accessories and smart POS terminals for deploying to our merchants, and IT hardware and software for our data center. We expect to fund these capital expenditures with a combination of cash generated from our operations, bank borrowings and the net proceeds received from the Global Offering.

### KEY FINANCIAL RATIOS

	Year ended December 31,		
	2015	2016	2017
Gross margin <sup>(1)</sup> . . . . .	46.5%	42.4%	32.8%
Net profit margin <sup>(2)</sup> . . . . .	(1.4)%	10.8%	7.7%
Adjusted EBITDA margin <sup>(3)</sup> . . . . .	5.1%	17.4%	19.5%
Adjusted net profit margin <sup>(4)</sup> . . . . .	(1.0)%	11.0%	9.6%

(1) Gross margin equals gross profit divided by revenue and multiplied by 100%.

(2) Net profit margin equals profit/ (loss) for the year divided by revenue and multiplied by 100%.

(3) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue and multiplied by 100%.

(4) Adjusted net profit margin equals adjusted net profit/ (loss) divided by revenue and multiplied by 100%.

### Adjusted EBITDA margin

Our adjusted EBITDA margin increased from 17.4% in 2016 to 19.5% in 2017, primarily due to the increases in our revenue and gross margin (exclusive of the effect of depreciation of payment terminals).

Our adjusted EBITDA margin increased from 5.1% in 2015 to 17.4% in 2016, primarily due to a significant increase in our revenue, and a slower increase in our selling and marketing expenses reflecting our enhanced economies of scale in 2016.

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## FINANCIAL INFORMATION

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### Adjusted net profit margin

Our adjusted net profit margin decreased to 9.6% in 2017 from 11.0% in 2016, primarily due to the decrease in our gross margin. We had an adjusted net profit of RMB119.9 million in 2016 while we had an adjusted net loss of RMB5.7 million in 2015. Our adjusted net profit margin increased to 11.0% in 2016.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

#### Capital commitments

The table below sets forth our capital commitments as of the dates indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
<i>Contracted, but not provided for:</i>			
Acquisition of property, plant and equipment . . . . .	269.9	269.9	—
<i>Investment commitments for:</i>			
Shanghai HuiFu Internet Financial Information Venture Capital Investment Center (Limited Partnership) . . . . .	25.3	—	—
Chengdu Financial Exchange Co., Ltd. . . . .	—	45.0	—
Guizhou Golden Union Data Service Co., Ltd. . . . .	—	—	19.2

We have funded and expect to continue to fund our capital commitments by cash generated from our operations and bank borrowings. In 2015 and 2016, our capital commitments were mainly attributable to our payable for the purchase of our headquarters building.

#### Operating lease commitments

##### *As lessee*

We lease certain of our office properties under operating lease arrangements for terms of one to three years. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases falling due as of the dates indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Within one year . . . . .	17.2	17.0	8.5
In the second to fifth years, inclusive . . . . .	12.6	7.8	1.0
<b>Total</b> . . . . .	<u>29.9</u>	<u>24.7</u>	<u>9.5</u>

### RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 37 to the Accountant's Report in Appendix I to this prospectus was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

As of December 31, 2015, 2016 and 2017, our outstanding balances due from related parties of non-trade related was RMB359.5 million, RMB368.5 million and RMB667.1 million, respectively. As

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## FINANCIAL INFORMATION

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of December 31, 2015, 2016 and 2017, our outstanding balances due to related parties of non-trade related was RMB236.0 million, RMB352.2 million and RMB491.7 million, respectively. As of January 31, 2018, all of our outstanding balances as of December 31, 2017 due from management personnel had been settled in cash. As of the Latest Practicable Date, all of our outstanding balances as of December 31, 2017 due from related parties of non-trade nature, including due from related companies of non-trade nature, had been settled in cash, and all of our outstanding balances as of December 31, 2017 due to related parties of non-trade nature had been settled.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of the Latest Practicable Date, we did not have any outstanding off-balance sheet arrangements.

### **QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

Our principal financial instruments mainly include cash and bank balances, restricted cash, trade and other receivables, trade payables and other payables, which arise directly from our operations. We have other financial assets and liabilities, such as interest-bearing bank and other borrowings, amounts due to related companies and amounts due from related companies. The main purpose of these financial instruments is to raise finance for our operations.

The main risks arising from our financial instruments are interest rate risk, credit risk and liquidity risk. Generally, we introduce conservative strategies on our risk management. To keep our exposure to these risks to a minimum, we have not used any derivatives and other instruments for hedging purposes. We do not hold or issue derivative financial instruments for trading purposes. Our Board of Directors review and agree policies for managing each of these risks, and they are summarized below:

#### **Interest rate risk**

Our exposure to risk for changes in market interest rates relates primarily to our interest-bearing bank and other borrowings set out in note 28 of the Accountant's Report in Appendix I to this prospectus. We do not use derivative financial instruments to hedge interest rate risk. We manage our interest cost using variable rate bank borrowings and other borrowings.

If the interest rate of bank and other borrowings had increased or decreased by 1% and all other variables held constant, our profit before tax, through the impact on floating rate borrowings, would have decreased or increased by approximately RMB1.3 million, RMB7.7 million, and RMB4.2 million for the years ended December 31, 2015, 2016 and 2017, respectively.

#### **Credit risk**

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations.

We have no concentrations of credit risk in view of our large number of customers.

The credit risk of our other financial assets, which mainly comprise restricted cash, other receivables, and amounts due from related companies, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

## FINANCIAL INFORMATION

### Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. Cash flows are also closely monitored on an ongoing basis.

The maturity profile of our financial liabilities as of the end of the Track Record Period, based on contractual undiscounted payments, is as follows:

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>	<u>Total</u>
	(RMB in millions)				
<b>December 31, 2017</b>					
Interest-bearing bank and other borrowings . . . . .	—	62.6	330.5	37.4	430.5
Trade payables . . . . .	201.1	—	—	—	201.1
Financial liabilities included in other payables, deposits received and accruals . . . . .	6,098.2	—	—	—	6,098.2
Due to related companies . . . . .	511.3	—	—	—	511.3
<b>Total</b> . . . . .	<u>6,810.7</u>	<u>62.6</u>	<u>330.5</u>	<u>37.4</u>	<u>7,241.2</u>

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>	<u>Total</u>
	(RMB in millions)				
<b>December 31, 2016</b>					
Interest-bearing bank and other borrowings . . . . .	—	629.2	141.7	—	770.9
Trade payables . . . . .	50.6	—	—	—	50.6
Financial liabilities included in other payables, deposits received and accruals . . . . .	4,596.8	—	—	—	4,596.8
Due to related companies . . . . .	352.2	—	—	—	352.2
<b>Total</b> . . . . .	<u>4,999.6</u>	<u>629.2</u>	<u>141.7</u>	<u>—</u>	<u>5,770.5</u>

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>	<u>Total</u>
	(RMB in millions)				
<b>December 31, 2015</b>					
Interest-bearing bank and other borrowings . . . . .	—	91.5	42.5	—	134.0
Trade payables . . . . .	53.8	—	—	—	53.8
Financial liabilities included in other payables, deposits received and accruals . . . . .	3,291.7	—	—	—	3,291.7
Due to related companies . . . . .	236.0	—	—	—	236.0
<b>Total</b> . . . . .	<u>3,581.5</u>	<u>91.5</u>	<u>42.5</u>	<u>—</u>	<u>3,715.5</u>

### DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. Any dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restriction and other factors which our Directors consider relevant. Our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board.

During the Track Record Period, we have not declared or paid any dividend. In January and February 2018, we paid special dividends of US\$45.4 million and US\$17.7 million, respectively, to our shareholder, PnR Holdings, in relation to our Reorganization. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio.



## FINANCIAL INFORMATION

### DISTRIBUTABLE RESERVES

As of December 31, 2017, we had RMB570.8 million in distributable reserves, available for distribution to our shareholders.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2017, based on our audited consolidated net tangible assets as of December 31, 2017 as shown in the Accountant's Report as set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of our Group as of December 31, 2017	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group	Unaudited pro forma adjusted net tangible assets per Share	
	(Note1)(Note5)	(RMB in thousands) (Note2)		(RMB) (Note3)	(HK\$) (Note4)
Based on Offer Price of HK\$6.50 per Share . . . . .	666,509	1,118,290	1,784,799	1.43	1.76
Based on Offer Price of HK\$8.50 per Share . . . . .	666,509	1,473,946	2,140,455	1.71	2.10

- (1) The consolidated net tangible assets attributable to owners of our Company as of December 31, 2017 is extracted from the Accountants' Report, which is based on the audited consolidated equity attributable to owners of our Company as of December 31, 2017 of approximately RMB705.0 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$6.50 per Share or HK\$8.50 per Share, after deduction of the estimated underwriting fees and other estimated expenses payable by our Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.8139.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 225,263,600 Shares in issue immediately following the completion of the Global Offering and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8139.
- (5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to December 31, 2017. In particular, the unaudited pro forma adjusted consolidated net tangible assets in the table above have not been adjusted to show the effect of the special dividend. On January 20, 2018, it is resolved by the director of our Company to make two special dividends to PnR Holdings Limited in the amount of US\$45,370,311.20 and US\$17,700,000.00, respectively. If the aforementioned two special dividends were taken into account, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to equity holders of our Company per share would be reduced to RMB1.10 (equivalent to HK\$1.35), based on an Offer Price of HK\$6.50 per Offer Share, and RMB1.39 (equivalent to HK\$1.71), based on an Offer Price of HK\$8.50 per Offer Share.

### DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

### DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since December 31, 2017 (being the date of our latest audited financial statements) and there has been no event since December 31, 2017 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

### LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions, incentive fee and other fees incurred in connection with the Global Offering. We estimate that our listing expenses will be

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## FINANCIAL INFORMATION

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approximately RMB86.7 million (assuming an Offer Price of HK\$7.50 per Share (being the mid-point of the indicative Offer Price range) and no exercise of the Over-allotment Option), of which approximately RMB43.6 million is directly attributable to the issue of our Shares to the public and will be capitalized and amortized, and approximately RMB43.1 million has been or is expected to be expensed, of which RMB7.8 million has been recognized in 2017 and the remaining has been or is expected to be recognized in 2018.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See “Business—Our Strategies” in this prospectus for a detailed discussion of our future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$7.50 per Share (being the mid-point of the stated range of the Offer Price of between HK\$6.50 and HK\$8.50 per Share), we estimate that we will receive net proceeds of approximately HK\$1,592.5 million from the Global Offering after deducting the estimated underwriting commissions, the maximum amount of the discretionary incentive fee and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- Approximately 30%, or HK\$477.8 million, for further enhancing our technology systems and research and development capability, of which,
  - (i) approximately 50%, or HK\$238.9 million, will be used to upgrade our information technology infrastructure, payment gateway system and account management system (with each system to be allocated approximately 30%, 30% and 40%, respectively, of the net proceeds earmarked for this category) to enhance the processing capacity of our payment services and the reliability of our principal technology systems. Specifically, we plan to start upgrading our existing information technology infrastructure in the second half of 2018 and roll out our enhanced information technology infrastructure in 2019 to support our business expansion. We also plan to expand our payment gateway system and account management system in 2019 so that we can process payments more efficiently and simultaneously handle increasing payment volumes with higher speed and less response time;
  - (ii) approximately 30%, or HK\$143.3 million, will be invested on data mining technology and big data analytics in the second half of 2018 to enhance our fraud detection capability, and on business intelligence and artificial intelligence technologies in 2019 and 2020 to strengthen our capability for offering more diverse data-driven value-added services. In addition, we plan to collaborate with international research institutes to set up research labs in the next two years to focus on cutting-edge payment technologies and innovative payment solutions; and
  - (iii) approximately 20%, or HK\$95.6 million, will be used for the recruitment and retention of skilled engineers and data specialists over the next three years, with expertise in information technology infrastructure, system development, big data analytics, artificial intelligence and cloud computing. Based on our current business growth trend, we plan to expand our research and development team to approximately 450 employees in the next three years, with over 25 new recruits each year. We may, however, adjust the size of our research and development team and the number of new recruits according to our business growth plans;
- Approximately 20%, or HK\$318.5 million, for pursuing selective acquisitions of, or strategic investments in, payment technology companies, payment service providers and/or SaaS providers. Our management believes that such acquisition or investments can create synergies with our existing product and service offerings, enhance our technology capabilities, and supplement our client base. Specifically, we plan to acquire or invest in:
  - (i) payment technology companies in China to enhance our technology capabilities in the

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## FUTURE PLANS AND USE OF PROCEEDS

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next two years; (ii) SaaS providers in China in the next two years, focusing on customer relationship management and online sales and marketing, supply chain management, and financial management, so that we can leverage their existing client base to develop merchants, and integrate our payment services into their solutions for providing a more seamless user experience for their customers; and (iii) overseas payment service providers, particularly in the Asia Pacific region, who primarily serve merchants in the local markets in the next three years. We intend to finance our acquisitions principally by the net proceeds from the Global Offering, together with external financing, such as bank loans, if there is any funding shortfall. As of the Latest Practicable Date, we have not identified or pursued any acquisition target;

- Approximately 10%, or HK\$159.2 million, for investing in our direct sales channel (with approximately 60% of the net proceeds earmarked for this category) in tier-one and tier-two cities in China, such as Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu, to facilitate the acquisition and the support of key clients in selected industrial verticals, such as healthcare, logistics and education sectors, and enhancing our ISO network in tier-three and tier-four cities in China and strengthening collaboration with SaaS providers (with the remaining 40% of the net proceeds earmarked for this category). Specifically, we plan to add over 70 business development and sales personnel in the next three years to develop a growing number industry clients which we expect may double over the period. We also plan to increase our ISO network from over 1,800 ISOs as of December 31, 2017 to over 3,000 ISOs over the next three years, covering over 80% of the approximately 300 prefecture-level cities in China, and we intend to collaborate with over 150 SaaS providers within the next two years;
- Approximately 10%, or HK\$159.2 million, for further recruiting and cultivating talents and continuing to offer competitive compensation to our existing employees. In particular, we plan to allocate approximately 70% of the net proceeds earmarked for this category to offer a more competitive and market-orient compensation which rewards our entire workforce over the next three years and to improve our employee training programs; and we plan to allocate the remaining portion to hire over 45 employees to our operations and risk management teams over the next three years to strengthen our middle and back-office functions, based primarily on our growing need for serving our expanding client base of industry verticals and increased risk management needs to accommodate greater payment volumes and changing regulations;
- Approximately 20%, or HK\$318.5 million, for partially repaying the principal amount and interests on our HK\$355.0 million and US\$17.7 million (approximately HK\$138.9 million) bank borrowings which we incurred in January and February 2018 as part of our Reorganization; and
- Approximately 10%, or HK\$159.2 million, for working capital and general corporate uses.

We expect that our near-term business expansion plans mentioned above will strengthen our competitive advantages in the third-party payments market and increase our client base and market share. However, as these statements are forward-looking in nature, we caution you not to place undue reliance on them. See “Forward-Looking Statements.” After the Global Offering, we may adjust our business expansion plans from time to time according to the prevailing market conditions, industry developments and regulatory environment.

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## FUTURE PLANS AND USE OF PROCEEDS

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If the Offer Price is set at the high-end of the Offer Price range or the low-end of the Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$218.5 million and HK\$218.5 million, respectively. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly on a pro rata basis.

If the Over-allotment Option were exercised in full, the net proceeds we would receive from such exercise of the Over-allotment Option would be (i) HK\$278.6 million (assuming an Offer Price of HK\$8.50 per Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$245.8 million (assuming an Offer Price of HK\$7.50 per Share, being the mid-point of the Offer Price range stated in this prospectus), and (iii) HK\$213.0 million (assuming an Offer Price of HK\$6.50 per Share, being the low-end of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not viable, or the occurrence of force majeure events, we will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, we intend to place such proceeds in short-term interest-bearing instruments, such as liquid fixed-income securities, short-term bank deposits or money market instruments with licensed banks or financial institutions in Hong Kong or China so long as it is deemed to be in the best interests of the Company.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

J.P. Morgan Securities (Asia Pacific) Limited  
CLSA Limited  
CCB International Capital Limited  
Haitong International Securities Company Limited  
Credit Suisse (Hong Kong) Limited  
CMB International Capital Limited

### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 22,526,400 Hong Kong Offer Shares and the International Offering of initially 202,737,200 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on May 31, 2018. Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme) on the Main Board of the Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

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## UNDERWRITING

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### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
  - (i) any new Law (as defined in the Hong Kong Underwriting Agreement) or any change or development involving a prospective change or any event or series of events or circumstance likely to result in a change or a development involving a prospective change in existing Laws, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, Singapore, the United States, the United Kingdom, the European Union (or any member thereof), Japan or any other jurisdiction relevant to the Company (each a “**Relevant Jurisdiction**”); or
  - (ii) any change or development involving a prospective change or development, or any event or series of events or circumstance likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, credit, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, investment markets and inter-bank and credit markets) in or affecting any Relevant Jurisdiction; or
  - (iii) any event or series of events or circumstance in the nature of force majeure (including, without limitation, acts of government, labor disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or
  - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
  - (v) any moratorium, suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or
  - (vi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent governmental authority), New York (imposed at Federal or New York State level or other competent governmental authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any other Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or

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## UNDERWRITING

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securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

- (vii) any (A) change or development involving a prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions, or (B) any change or development involving a prospective change in taxation in any Relevant Jurisdiction; or
- (viii) the issue or requirement to issue by the Company of a supplemental or amendment to this prospectus, the Application Forms, the preliminary offering circular or final offering circular of the International Offering or other documents in connection with the offer of the Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC; or
- (ix) any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (x) any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xi) any Proceedings (as defined in the Hong Kong Underwriting Agreement) being threatened or instigated against any member of the Group or any executive Director; or
- (xii) a governmental authority in any Relevant Jurisdiction commencing any Proceedings, or announcing an intention to commence any Proceedings, against any member of the Group or any Director; or
- (xiii) any of the chairman or president of the Company vacating his office, any Director being charged with an indictable offense or prohibited by operation of laws or regulations or otherwise disqualified from taking part in the management of a company; or
- (xiv) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures Ordinance, the PRC Company Law, the Listing Rules or applicable Laws; or
- (xv) any valid demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or



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## UNDERWRITING

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manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

- (xvi) a prohibition on the Company for whatever reason from offering, allotting or selling the Shares (including the Shares to be offered or sold pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering,

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters): (A) has or will or is likely to have a material adverse effect or any development involving a prospective material adverse effect, on the assets, liabilities, profits, losses, general affairs, business, management, performance, shareholders' equity, position or condition (financial or otherwise), results of operations, or prospects of the Company and its subsidiaries, taken as a whole; or (B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares; or (C) makes or will make it or is likely to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice of the Global Offering, the preliminary offering circular or the final offering circular of the International Offering, and/or to perform or implement any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering as envisaged; or (D) would have or is likely to have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents or delays the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of any of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters:
  - (i) that any statement contained in this prospectus, the Application Forms, the formal notice of the Global Offering and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue and incorrect in any material respect or misleading or incomplete or any forecasts, estimate, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice of the Global Offering and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and not made on reasonable grounds or, where appropriate, not based on reasonable assumptions; or
  - (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
  - (iii) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement

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- or the International Underwriting Agreement by the Company or (ii) any of the representations, warranties and undertakings given by the Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading; or
- (iv) any of the experts named in “Appendix IV—Statutory and General Information—E. Other Information—4. Consents of Experts” has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
  - (v) any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement; or
  - (vi) any litigation or dispute or potential litigation or dispute, which would materially affect the operation and financial condition of the Group; or
  - (vii) any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
  - (viii) the investment commitment by the Cornerstone Investor after signing of the agreement with the Cornerstone Investor, has been withdrawn, terminated, canceled or repudiated; or
  - (ix) any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder’s equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Company and its subsidiaries, as a whole; or
  - (x) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares on the Main Board is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, such approval is subsequently withdrawn, canceled, qualified (other than by customary conditions), revoked or withheld; or
  - (xi) the Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Global Coordinators (for themselves and on behalf of the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) may, in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

### ***Undertakings to the Stock Exchange pursuant to the Listing Rules***

#### ***Undertakings by the Company***

In accordance with Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued by the Company or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of

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shares or securities of the Company will be completed within six months from the commencement of dealing), except for: (a) any capitalization issue, capital reduction or consolidation or sub-division of shares; or (b) issue of shares or securities pursuant to the Global Offering and the Over-allotment Option; or (c) any other applicable circumstances provided under Rule 10.08 of the Listing Rules.

### *Undertakings pursuant to the Hong Kong Underwriting Agreement*

#### *Undertakings by the Company*

Pursuant to the Hong Kong Underwriting Agreement, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the Pre-IPO Share Option Scheme, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six Month Period**”), the Company has undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters not to, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other securities of the Company, as applicable), or deposit any share capital or other securities of the Company, as applicable, with a depository in connection with the issue of depository receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Shares or any other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company, as applicable or any interest in any of the foregoing); or
- (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to do, or announce any intention to effect, any of the foregoing,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities of the Company, in cash or otherwise (whether or not the issue of such share capital or other securities of the Company will be completed within the First Six Month Period).

In the event the Company enters into any of the transactions described in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction after the First Six Month Period, it will take all reasonable steps to ensure that such an issue or disposal will not,

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and no other act of the Company will, create a disorderly or false market for any Shares or other securities of the Company.

### **Undertakings by the Management Company and Certain Pre-IPO Investors of the Company**

Each of the Management Company, Trixen, Eight Roads Ventures, Keytone Ventures II, L.P. and Bain PnR has undertaken to the Company, the Joint Sponsors, the Joint Global Coordinators and the Underwriters that except as may be required by applicable law or regulation or with the prior written consent of the Company, the Joint Sponsors and the Joint Global Coordinators, it will not and will procure that no company controlled by it or any nominee or trustee holding in trust for it will, at any time during the period commencing on the date of their respective undertaking, and ending on a date which is six months from the Listing Date (the “**Lock-up Period**”):

- (i) offer, pledge, charge, sell, contract or agree to sell, mortgage, charge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant, or purchase any option, warrant, contract or right to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest in any of the foregoing (including, but not limited to, any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company) held by it as of the Listing Date (the “**Lock-up Shares**”);
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of, any Lock-up Shares;
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or contract to or agree to or publicly disclose that it will or may enter into any transaction described in (i), (ii) or (iii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such Shares or other securities of the Company, in cash or otherwise (whether or not the settlement or delivery of such Shares or other securities will be completed within the Lock-up Period), provided that the above restrictions:

- (i) shall not prevent the transferring of any Lock-up Shares: (i) as may be required by applicable law or regulation; (ii) pursuant to the Global Offering (including the Over-allotment Option); (iii) with the prior written consent of the Company, the Joint Sponsors and the Joint Global Coordinators; or (iv) to any wholly-owned subsidiaries of each of the Management Company, Trixen, Eight Roads Ventures, Keytone Ventures II, L.P. and Bain PnR, respectively;
- (ii) do not apply to Shares acquired by it subsequent to the completion of the Global Offering and will not prevent it from using the Shares beneficially owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan provided that (i) it immediately informs the Company, the Joint Sponsors and the Joint Global Coordinators of such pledge or charge together with the number of Shares so pledged or charged, and (ii) when it receives indications, either verbal or written, from the

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## UNDERWRITING

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pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform the Company, the Joint Sponsors and the Joint Global Coordinators of such indications.

### ***Hong Kong Underwriters' Interests in the Company***

Save for their respective obligations under the Hong Kong Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as at the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

### **International Offering**

#### ***International Underwriting Agreement***

In connection with the International Offering, the Company expects to enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering—The International Offering.”

#### ***Over-allotment Option***

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to allot and issue up to an additional 33,789,200 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See “Structure of the Global Offering—Over-allotment Option.”

### **Commissions and Expenses**

The Underwriters will receive an underwriting commission of 2.3% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions and other fees.

The Underwriters may receive a discretionary incentive fee of up to 0.7% of the aggregate Offer Price of all the Offer Shares.

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For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK\$7.50 per Offer Share (which is the mid-point of the Offer Price Range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK\$50.4 million.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$114.1 million (assuming an Offer Price of HK\$7.50 per Offer Share (which is the mid-point of the Offer Price Range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) and will be paid by the Company.

### **Indemnity**

The Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

### **ACTIVITIES BY SYNDICATE MEMBERS**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging

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## UNDERWRITING

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activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

J.P. Morgan Securities (Asia Pacific) Limited and CLSA Limited are the Joint Global Coordinators of the Global Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

225,263,600 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 22,526,400 Shares (subject to reallocation) in Hong Kong as described in “—The Hong Kong Public Offering” below; and
- (b) the International Offering of initially 202,737,200 Shares (subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in “—The International Offering” below.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 18% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 20.16% of the total Shares in issue immediately following the completion of the Global Offering (without taking into account the Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme).

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

The Company is initially offering 22,526,400 Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.80% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme).



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The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “—Conditions of the Global Offering” below.

### **Allocation**

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 11,263,200 Hong Kong Offer Shares is liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and

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## STRUCTURE OF THE GLOBAL OFFERING

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(c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 67,579,200 Offer Shares (in the case of (a)), 90,105,600 Offer Shares (in the case of (b)) and 112,632,000 Offer Shares (in the case of (c)), representing approximately 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option and the issue of Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Schemes. In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done in the circumstance that the International Offer Shares are undersubscribed or other than pursuant to the clawback mechanism above, the total number of Offer Shares available under the Hong Kong Public Offering following such reallocation shall be not more than 45,052,800 Offer Shares (representing approximately 20% of the total number of Offer Shares initially available under the Global Offering), and the final Offer Price shall be fixed at the low-end of the indicative offer price range (i.e., HK\$6.50 per Offer Share) stated in this prospectus.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

### **Applications**

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$8.50 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “—Pricing and Allocation” below, is less than the Maximum Offer Price of HK\$8.50 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares.”

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL OFFERING

#### Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 202,737,200 Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 16.2% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme).

#### Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “—Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

#### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “—The Hong Kong Public Offering—Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time

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## STRUCTURE OF THE GLOBAL OFFERING

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from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 33,789,200 additional Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 2.63% of the total Shares in issue immediately following the completion of the Global Offering. If the Over-allotment Option is exercised, an announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Friday, July 6, 2018, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- (e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

### **Over-Allocation**

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

### **STOCK BORROWING AGREEMENT**

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 33,789,200 Shares (being the maximum number of Shares which may be sold pursuant to the exercise of the Over-allotment Option) from the Management Company pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and the Management Company on or about the Price Determination Date.

If the Stock Borrowing Agreement is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager (or any person acting for it) for the settlement of over-allocations in the International Offering and such borrowing arrangement is not subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set out in Rule 10.07(3) of the Listing Rules, being that the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, are complied with.

The same number of Shares so borrowed must be returned to the Management Company or its nominees, as the case may be, on or before the third business day following the earlier of (a) the last day for exercising the Over-allotment Option and (b) the day on which the Over-allotment Option is exercised in full.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Stock borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to the Management Company by the Stabilizing Manager (or any person acting for it) in relation to such Stock borrowing arrangement.

### PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, June 7, 2018 and, in any event, no later than Thursday, June 14, 2018, by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$8.50 per Offer Share and is expected to be not less than HK\$6.50 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the Maximum Offer Price of HK\$8.50 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$3,434.26 for one board lot of 400 Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Minimum Offer Price stated in this prospectus.**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price Range below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Company and the Stock Exchange at [www.huifu.com](http://www.huifu.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price Range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and the Company, will be fixed within such revised Offer Price Range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price Range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other

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## STRUCTURE OF THE GLOBAL OFFERING

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financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company, will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares—A. Applications for Hong Kong Offer Shares—11. Publication of results.”

### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company agreeing on the Offer Price.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in “Underwriting.”

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme) on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- (b) the Offer Price having been agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company;
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company on or before Thursday, June 14, 2018, the Global Offering will not proceed and will lapse.

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## STRUCTURE OF THE GLOBAL OFFERING

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The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the websites of the Company and the Stock Exchange at [www.huifu.com](http://www.huifu.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares—Refund of Application Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Friday, June 15, 2018, provided that the Global Offering has become unconditional in all respects at or before that time.

### DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 15, 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, June 15, 2018.

The Shares will be traded in board lots of 400 Shares each and the stock code of the Shares will be 1806.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### A. APPLICATIONS FOR HONG KONG OFFER SHARES

#### 1. How to Apply

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

#### 2. Who Can Apply

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Joint Global Coordinators, as the Company's agent, may accept it at their discretion, and on any conditions they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of the Company's subsidiaries;
- you are a director or chief executive of the Company and/or any of the Company's subsidiaries;
- you are a connected person of the Company or a person who will become a connected person of the Company immediately upon the completion of the Global Offering; or
- you are a close associate of any of the above persons;
- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. Applying for Hong Kong Offer Shares

#### *Which Application Channel to Use*

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### *Where to Collect the Application Forms*

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 1, 2018 until 12:00 noon on Wednesday, June 6, 2018 from:

- (a) any of the following offices of the Hong Kong Underwriters:

**J.P. Morgan Securities (Asia Pacific) Limited**

28/F, Chater House, 8 Connaught Road Central, Hong Kong

**CLSA Limited**

18/F, One Pacific Place, 88 Queensway, Hong Kong

**CCB International Capital Limited**

12/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong

**Haitong International Securities Company Limited**

22/F Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

**Credit Suisse (Hong Kong) Limited**

Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong

**CMB International Capital Limited**

45/F, Champion Tower, 3 Garden Road, Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(b) any of the following branches of the receiving banks for the Hong Kong Public Offering:

**Bank of China (Hong Kong) Limited**

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Johnston Road Branch	152-158 Johnston Road, Wan Chai
	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan
Kowloon	Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
New Territories	Fo Tan Branch	No 2, 1/F Shatin Galleria, 18-24 Shan Mei Street, Fo Tan
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan
	Yuen Long Branch	102-108 Castle Peak Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 1, 2018 until 12:00 noon on Wednesday, June 6, 2018 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

### *Time for Lodging Application Forms*

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED—HUIFU PAYMENT PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above at the following times:

<b>Friday, June 1, 2018</b>	–	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Saturday, June 2, 2018</b>	–	<b>9:00 a.m. to 1:00 p.m.</b>
<b>Monday, June 4, 2018</b>	–	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Tuesday, June 5, 2018</b>	–	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Wednesday, June 6, 2018</b>	–	<b>9:00 a.m. to 12:00 noon</b>

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, June 6, 2018, the last day for applications, or such later time as described in "—Applications for Hong Kong Offer Shares—Effect of bad weather on the opening and closing of the application lists" below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 4. Terms and Conditions of an Application

Follow the detailed instructions in the **WHITE** or **YELLOW** Application Form carefully, otherwise your application may be rejected.

By submitting a **WHITE** or **YELLOW** Application Form or applying through the **White Form eIPO** service, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Memorandum and Articles of Association of the Company, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Law;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- (f) agree that none of the Company, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (h) agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which any of them may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither the Company nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus and the Application Form;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (ii) you and any

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- (o) authorize (i) the Company to place your name(s) or the name of HKSCC Nominees on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under the Memorandum and Articles of Association of the Company and (ii) the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “How to apply for Hong Kong Offer Shares – Personal Collection” below to collect the Share certificate(s) and/or refund check(s) in person;
- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as its agent.

### *Additional Instructions for YELLOW Application Forms*

You should refer to the **YELLOW** Application Form for details.

## **5. Applying Through the White Form eIPO Service**

### **General**

Individuals who meet the criteria in “– Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

### *Time for Submitting Applications under the White Form eIPO Service*

You may submit your application through the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last day for applications) from 9:00 a.m. on Friday, June 1, 2018 until 11:30 a.m. on Wednesday, June 6, 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, June 6, 2018, the last day for applications, or such later time as described in “—Effect of bad weather on the opening and closing of the application lists” below.

### *No Multiple Applications*

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

Only one application may be made for the benefit of any person. If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### *Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### *Environmental Protection*

The obvious advantage of the **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “HUIFU PAYMENT LIMITED” **White Form eIPO** application submitted via the website [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

## **6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS**

### *General*

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center 1/F,  
One & Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

### ***Giving Electronic Application Instructions to HKSCC via CCASS***

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
- (b) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant’s stock account on your behalf or your CCASS Investor Participant’s stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
  - declare that only one set of **electronic application instructions** has been given for your benefit;

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- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- authorize the Company to place HKSCC Nominees' name on the register of members of the Company as the holder of the Hong Kong Offer Shares allocated to you and such other registers as required under the Articles of Association, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither the Company nor the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;



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- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by the Company;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for the Company and on behalf of each Shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Memorandum and Articles of Association of the Company, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Law; and
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

### *Effect of Giving Electronic Application Instructions to HKSCC via CCASS*

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the Maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### *Minimum Purchase Amount and Permitted Numbers*

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 400 Hong Kong Offer Shares. Instructions for more than 400 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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### *Time for Inputting Electronic Application Instructions*

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Friday, June 1, 2018</b>	–	<b>9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Saturday, June 2, 2018</b>	–	<b>8:00 a.m. to 1:00 p.m.<sup>(1)</sup></b>
<b>Monday, June 4, 2018</b>	–	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, June 5, 2018</b>	–	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Wednesday, June 6, 2018</b>	–	<b>8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

**Note:**

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, June 1, 2018 until 12:00 noon on Wednesday, June 6, 2018 (24 hours daily, except on the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, June 6, 2018, the last day for applications, or such later time as described in “—Effect of bad weather on the opening and closing of the application lists” below.

### *No Multiple Applications*

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### *Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### *Personal Data*

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. Warning for Electronic Applications**

The application for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form**

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**eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. The Company, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System for submission of their **electronic application instructions**, they should either (a) submit a **WHITE** or **YELLOW** Application Form or (b) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, June 6, 2018, the last day for applications, or such later time as described in “—Applications for Hong Kong Offer Shares—Effect of bad weather on the opening and closing of the application lists” below.

### 8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code.

for **each** beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

**All** of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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### 9. How Much Are the Hong Kong Offer Shares

The Maximum Offer Price is HK\$8.50 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 400 Hong Kong Offer Shares, you will pay HK\$3,434.26.

You must pay the Maximum Offer Price, together with brokerage, SFC transaction levy and Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares under the terms and conditions set out in the Application Forms.

The Application Forms have tables showing the exact amount payable for the numbers of Offer Shares that may be applied for.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 400 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 400 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering—Pricing and Allocation.”

### 10. Effect of Bad Weather on the Opening and Closing of the Application Lists

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, June 6, 2018. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, June 6, 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made.

### 11. Publication of Results

The Company expects to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Thursday, June 14, 2018 on the websites of the Company at [www.huifu.com](http://www.huifu.com) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on the websites of the Company and the Stock Exchange at [www.huifu.com](http://www.huifu.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, by no later than Thursday, June 14, 2018;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Thursday, June 14, 2018 to 12:00 midnight on Wednesday, June 20, 2018;
- from the allocation results telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, June 14, 2018 to Sunday, June 17, 2018; and
- in the special allocation results booklets which will be available for inspection during the opening hours of the individual receiving bank designated branches referred to above from Thursday, June 14, 2018 to Saturday, June 16, 2018.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. Circumstances in which You will Not be Allocated Hong Kong Offer Shares

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

#### (a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- (i) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening

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of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or

- (ii) if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

**(b) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(c) If the allocation of Hong Kong Offer Shares is void:**

The allocation of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(d) If:**

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
- you apply for more than 11,263,200 Hong Kong Offer Shares, being 50% of the 22,526,400 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;

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- the Company or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- the Underwriting Agreements do not become unconditional or are terminated.

### 13. Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering—Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the check or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, June 14, 2018.

### 14. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Form(s), subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) Share certificate(s) for all the Hong Kong Offer Shares allocated to you (for applicants on **YELLOW** Application Forms, Share certificate(s) for the Hong Kong Offer Shares allocated to you will be deposited into CCASS as described below); and
- (b) refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for and/or (ii) the difference between the Offer Price and the Maximum Offer Price paid on application in the event that the Offer Price is less than the Maximum Offer Price paid on application (including brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% but without interest).

Part of the Hong Kong identity card number/passport number provided by you or the first-named applicant (if you are joint applicants) may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check.

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Subject to arrangement on despatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or before Thursday, June 14, 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, June 15, 2018, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Share on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

### Personal Collection

(a) *If you apply using a WHITE Application Form:*

- If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have provided all information required by your Application Form, you may collect your refund check(s) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, June 14, 2018, or any other place or date notified by the Company on the website of our Company at [www.huifu.com](http://www.huifu.com) and on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).
- If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorized representative must provide a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.
- If you do not personally collect your refund check(s) and/or Share certificate(s) (where applicable) within the time specified for collection, they will be despatched promptly to you to the address specified in your Application Form by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Offer Shares on a **WHITE** Application Form, your refund check(s) and/or Share certificate(s) (where applicable) will be sent to the address specified in your Application Form on or before Thursday, June 14, 2018 by ordinary post and at your own risk.

(b) *If you apply using a YELLOW Application Form:*

- If you apply for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by your Application Form, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address specified in the Application Form on or before Thursday, June 14, 2018 by ordinary post and at your own risk.
- If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or your designated CCASS



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Participant's stock account as stated in your Application Form on Thursday, June 14, 2018 or, in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.
- If you apply as a CCASS Investor Participant, the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Thursday, June 14, 2018 in the manner as described in "—Applications for Hong Kong Offer Shares—Publication of results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 14, 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.

(c) *If you apply through White Form eIPO service:*

- If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 14, 2018, or any other place or date notified by the Company on the website of our Company at [www.huifu.com](http://www.huifu.com) and on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) as the date of despatch or collection of Share certificates.
- If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, June 14, 2018 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

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(d) *If you apply by giving electronic application instructions to HKSCC via CCASS:*

*Allocation of Hong Kong Offer Shares*

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, June 14, 2018 or on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card / passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in “—Applications for Hong Kong Offer Shares—Publication of results” above on Thursday, June 14, 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 14, 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, June 14, 2018. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 14, 2018.

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### **15. Admission of the Shares into CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

*The following is the text of a report on Huifu Limited, prepared for the purpose of incorporation in this prospectus received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



22nd Floor  
CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

The Directors  
Huifu Limited  
CLSA Capital Markets Limited  
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We report on the historical financial information of Huifu Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-66, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2015, 2016 and 2017 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2015, 2016 and 2017 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-66 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 1, 2018 (the “Prospectus”) in connection with the initial listing of the 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 presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, 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 the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial

Information, respectively, 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 financial position of the Group and the Company as at December 31, 2015, 2016 and 2017 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**Report on matters under the Rules Governing the Listing of Securities on the Main Board of 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 3 have been made.

***Dividends***

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

***No historical financial statements for the Company***

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young  
Certified Public Accountants  
Hong Kong  
June 1, 2018

## I HISTORICAL FINANCIAL INFORMATION

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended December 31,		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
<b>REVENUE</b> .....	5	555,715	1,094,777	1,726,256
Cost of sales .....		(297,511)	(630,681)	(1,159,234)
<b>GROSS PROFIT</b> .....		258,204	464,096	567,022
Selling and marketing expenses .....		(65,203)	(81,920)	(94,978)
Administrative expenses .....		(118,025)	(146,029)	(215,853)
Research and development expenses .....		(79,763)	(93,271)	(130,780)
Finance costs .....	8	(1,534)	(15,167)	(22,285)
Share of losses of associates .....	18	(45)	(9,689)	(7,129)
Other expenses .....	7	(75,188)	(72,451)	(65,289)
Other income and gains .....	5	85,108	94,126	124,688
<b>PROFIT BEFORE TAX</b> .....	6	3,554	139,695	155,396
Income tax expense .....	11	(11,128)	(20,962)	(22,570)
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> .....		<b>(7,574)</b>	<b>118,733</b>	<b>132,826</b>
Profit attributable to:				
Owners of the parent .....		(7,574)	125,193	138,239
Non-controlling interests .....		—	(6,460)	(5,413)
		<b>(7,574)</b>	<b>118,733</b>	<b>132,826</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>				
Basic and diluted .....	13	N/A	N/A	N/A

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	39,036	145,509	836,113
Prepaid acquisition payment	15	118,435	121,869	—
Goodwill	16	—	—	—
Other intangible assets	17	32,509	29,759	38,459
Investments in associates	18	27,205	80,326	354
Available-for-sale investments	19	128,148	224,831	11,800
Deferred tax assets	20	2,100	1,692	1,836
Total non-current assets		<u>347,433</u>	<u>603,986</u>	<u>888,562</u>
<b>CURRENT ASSETS</b>				
Available-for-sale investments	19	5,115	86,000	70,623
Inventories	21	6,317	20,859	2,172
Trade receivables	22	11,415	5,812	21,288
Due from management personnel	37	100,750	100,000	332,618
Due from related companies	37	285,651	282,543	334,938
Due from the immediate holding company	37	566	605	605
Prepayments, deposits and other receivables	23	836,381	1,330,426	2,944,975
Tax recoverable		918	7,640	7,372
Restricted cash	24	2,418,287	3,788,968	3,216,167
Cash and cash equivalents	24	213,625	175,953	304,736
Total current assets		<u>3,879,025</u>	<u>5,798,806</u>	<u>7,235,494</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	25	53,838	50,638	201,114
Other payables, deposits received and accruals	26	3,360,981	4,677,925	6,284,764
Advances from customers	27	35,108	6,971	5,180
Due to related companies	37	236,025	352,194	511,348
Interest-bearing bank and other borrowings	28	131,795	766,348	380,315
Tax payable	11	—	1,449	108
Total current liabilities		<u>3,817,747</u>	<u>5,855,525</u>	<u>7,382,829</u>
<b>NET CURRENT ASSETS</b>		<u><b>61,278</b></u>	<u><b>(56,719)</b></u>	<u><b>(147,335)</b></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>408,711</b></u>	<u><b>547,267</b></u>	<u><b>741,227</b></u>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing bank and other borrowings	28	—	—	35,000
Deferred tax liabilities	20	2,045	—	—
Provision	18	—	7,560	—
Total non-current liabilities		<u>2,045</u>	<u>7,560</u>	<u>35,000</u>
<b>NET ASSETS</b>		<u><b>406,666</b></u>	<u><b>539,707</b></u>	<u><b>706,227</b></u>
<b>EQUITY</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	29	—	—	—
Reserves	31	406,666	533,035	704,968
		<u>406,666</u>	<u>533,035</u>	<u>704,968</u>
<b>Non-controlling interests</b>		<u>—</u>	<u>6,672</u>	<u>1,259</u>
<b>TOTAL EQUITY</b>		<u><b>406,666</b></u>	<u><b>539,707</b></u>	<u><b>706,227</b></u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2015

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Retained profits*	Total		
	RMB'000 <i>Note 29</i>	RMB'000 <i>Note 31(a)</i>	RMB'000	RMB'000 <i>Note 31(b)</i>	RMB'000	RMB'000		
At January 1, 2015 . . . . .	—	497,074	54,496	6,984	(146,204)	412,350	—	412,350
Profit and total comprehensive income for the year . . . . .	—	—	—	—	(7,574)	(7,574)	—	(7,574)
Appropriations to statutory surplus reserve . . . . .	—	—	—	613	(613)	—	—	—
Equity-settled share option arrangements . . . . .	—	—	1,890	—	—	1,890	—	1,890
As at December 31, 2015 . . . . .	—	497,074	56,386	7,597	(154,391)	406,666	—	406,666

Year ended December 31, 2016

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Retained profits*	Total		
	RMB'000 <i>Note 29</i>	RMB'000 <i>Note 31(a)</i>	RMB'000	RMB'000 <i>Note 31(b)</i>	RMB'000	RMB'000		
At January 1, 2016 . . . . .	—	497,074	56,386	7,597	(154,391)	406,666	—	406,666
Capital contribution from non-controlling shareholders of the subsidiary . . . . .	—	—	—	—	—	—	8,586	8,586
Profit and total comprehensive income for the year . . . . .	—	—	—	—	125,193	125,193	(6,460)	118,733
Appropriations to statutory surplus reserve . . . . .	—	—	—	14,864	(14,864)	—	—	—
Equity-settled share option arrangements . . . . .	—	—	1,176	—	—	1,176	—	1,176
Others . . . . .	—	—	—	—	—	—	4,546	4,546
As at December 31, 2016 . . . . .	—	497,074	57,562	22,461	(44,062)	533,035	6,672	539,707



Year ended 31 December 2017

	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Share capital	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Retained profits*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>Note 29</i>	<i>Note 31(a)</i>		<i>Note 31(b)</i>				
At 1 January 2017 .....	—	497,074	57,562	22,461	(44,062)	533,035	6,672	539,707
Profit and total comprehensive income for the year .....	—	—	—	—	138,239	138,239	(5,413)	132,826
Appropriations to statutory surplus reserve .....	—	—	—	20,420	(20,420)	—	—	—
Equity-settled share option arrangements .....	—	—	33,694	—	—	33,694	—	33,694
As at 31 December 2017 .....	<u>—</u>	<u>497,074</u>	<u>91,256</u>	<u>42,881</u>	<u>73,757</u>	<u>704,968</u>	<u>1,259</u>	<u>706,227</u>

\* These reserve accounts comprise the consolidated reserves of RMB406,666,000, RMB533,035,000 and RMB704,968,000 in the consolidated statements of financial position as at 31 December 2015, 2016 and 2017, respectively.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax: . . . . .		3,554	139,695	155,396
Adjustments for:				
Finance costs . . . . .	8	1,534	15,167	22,285
Share of losses of associates . . . . .	18	45	9,689	7,129
Interest income . . . . .	5	(26,054)	(38,347)	(61,633)
Investment income on available-for-sale investments . . . . .	5	(6,852)	(22,439)	(29,094)
Loss on disposal of property, plant and equipment . . . . .	6,7	114	20,244	29,064
Gain on disposal of subsidiaries . . . . .	5	—	—	(204)
Gain on disposal of associates . . . . .	5	—	—	(1,533)
Depreciation of property, plant and equipment . . . . .	6,14	15,504	27,092	117,174
Amortization of other intangible assets . . . . .	6,17	6,070	6,962	8,081
Impairment of goodwill . . . . .	6,16	—	4,108	—
Impairment of other intangible assets . . . . .	6,17	—	1,788	—
Impairment of available-for-sale investment . . . . .	6,19	3,120	—	—
Impairment of other receivables . . . . .	6,23	70,699	43,617	31,637
Equity-settled share-based expense . . . . .	6	1,890	1,176	33,694
		69,624	208,752	311,996
(Increase)/decrease in inventories . . . . .		11,386	(14,542)	15,816
(Increase)/decrease in trade receivables . . . . .		(3,309)	5,603	(15,491)
(Increase)/decrease in amounts due from related companies . . . . .		(27,224)	12,831	13,554
(Increase)/decrease in prepayments, deposits and other receivables . . . . .		23,883	(538,900)	(1,646,519)
(Increase)/decrease in restricted cash . . . . .		(1,463,537)	(1,393,016)	561,703
Increase/(decrease) in trade payables . . . . .		(68,504)	(3,200)	150,476
Increase in amounts due to related companies . . . . .		—	—	19,576
Increase in other payables, deposits received and accruals . . . . .		1,365,825	1,313,843	1,350,787
Increase/(decrease) in advances from customers . . . . .		29,621	(28,137)	(1,791)
<b>Cash (used in)/generated from operations . . . . .</b>		<b>(62,235)</b>	<b>(436,766)</b>	<b>760,107</b>
Interest received . . . . .		24,323	39,662	61,943
Interest paid . . . . .		(1,286)	(14,371)	(22,721)
Tax paid . . . . .		(7,018)	(27,872)	(23,787)
<b>Net cash flow from/(used in) operating activities . . . . .</b>		<b>(46,216)</b>	<b>(439,347)</b>	<b>775,542</b>

	Notes	Year ended December 31,		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceed of investment income		5,839	18,621	28,471
Purchases of items of property, plant and equipment		(131,010)	(153,770)	(458,566)
Purchases of other intangible assets		(3,215)	(7,579)	(10,573)
Investment in associates		(27,250)	(55,250)	(48,333)
Acquisition of available-for-sale and other investments		(1,644,250)	(506,204)	(2,184,435)
Acquisition of a subsidiary	33	—	(4,174)	—
Disposal of property, plant and equipment		405	400	691
Disposal of available-for-sale investments		1,522,000	337,000	2,362,536
Disposal of subsidiaries	34	—	—	(41)
<b>Net cash flow used in investing activities</b>		<b><u>(277,481)</u></b>	<b><u>(370,956)</u></b>	<b><u>(310,250)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Capital contribution from non-controlling shareholders of the subsidiary		—	8,586	—
Advances to management personnel	37	(80,750)	(30)	(221,061)
Repayment of advances to management personnel	37	—	780	20,000
Advances to related companies	37	(39,970)	(429,980)	(242,907)
Repayment of advances to related companies	37	48,831	420,257	307,816
Advances to the immediate holding company	37	—	(39)	—
Advances from related companies	37	236,025	136,169	976,828
Repayment of advances from related companies	37	—	(20,000)	(837,250)
Decrease/(increase) in restricted cash		(42,600)	22,335	11,098
Proceeds from interest-bearing bank and other borrowings		483,652	3,841,762	5,479,536
Repayment from interest-bearing bank and other borrowings		(373,218)	(3,207,209)	(5,830,569)
<b>Net cash flow from/(used in) financing activities</b>		<b><u>231,970</u></b>	<b><u>772,631</u></b>	<b><u>(336,509)</u></b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b><u>(91,727)</u></b>	<b><u>(37,672)</u></b>	<b><u>128,783</u></b>
Cash and cash equivalents at beginning of year		305,352	213,625	175,953
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b><u>213,625</u></b>	<b><u>175,953</u></b>	<b><u>304,736</u></b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances	24	2,631,912	3,964,921	3,520,903
Less: Restricted cash	24	2,418,287	3,788,968	3,216,167
<b>CASH AND CASH EQUIVALENTS EQUIVALENTS AS STATED IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AND STATEMENTS OF CASH FLOWS</b>		<b><u>213,625</u></b>	<b><u>175,953</u></b>	<b><u>304,736</u></b>

## STATEMENTS OF FINANCIAL POSITION

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>			
Investment in a subsidiary .....	—	—	497,074
Total non-current assets .....	—	—	497,074
<b>CURRENT ASSETS</b>			
Total current assets .....	—	—	—
<b>NET CURRENT ASSETS</b> .....	—	—	—
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> .....	—	—	497,074
<b>NET ASSETS</b> .....	<u>—</u>	<u>—</u>	<u>497,074</u>
<b>EQUITY</b>			
Share capital .....	—	—	—
Reserves .....	—	—	497,074
<b>TOTAL EQUITY</b> .....	<u>—</u>	<u>—</u>	<u>497,074</u>

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

## 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the subsidiaries now comprising the Group were involved in the following principal activities:

- Merchant payment business
- FinTech enabling business

In the opinion of the directors, the immediate holding company of the Company is PnR Holdings Limited.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraph headed "Our Reorganization" in the section headed "History and Reorganization" in the Prospectus. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

<u>Subsidiaries</u>	<u>Notes</u>	<u>Place and date of incorporation/ establishment and place of operations</u>	<u>Nominal value of registered share capital</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
<u>Directly held:</u>					
匯付網絡技術（上海）有限公司 （“PnR Network Technology （Shanghai） Co., Ltd.”）* . . . . .	(1)	People’s Republic of China (“PRC”)/ Mainland China/ November 7, 2006	US\$74,000,000	100%	Investment holding
<u>Indirectly held:</u>					
匯付天下有限公司 （“China PnR Co., Ltd.”）** . . . . .	(2)	PRC/Mainland China/ June 23, 2006	RMB100,100,000	100%	Investment holding
上海匯付數據服務有限公司 （“Shanghai Payment and Remittance Data Service Co., Ltd.”）** . . . . .	(2)	PRC/Mainland China/ April 28, 2007	RMB100,000,000	100%	Third party payment
南京德辰信息技術有限公司 （“Nanjing Dechen Information Technology Co., Ltd.”）*** . . . . .	(3)	PRC/Mainland China/ March 5, 2015	RMB500,000	51%	Technology development

Subsidiaries	Notes	Place and date of incorporation/ establishment and place of operations	Nominal value of registered share capital	Percentage of equity interest attributable to the Company	Principal activities
上海匯付錦翰信息技術有限公司 ("PnR JH Tech Co., Ltd.")*** . . .	(4)	PRC/Mainland China/ April 27, 2016	RMB6,000,000	51%	Technology development
上海匯涵商業保理有限公司 ("Shanghai Huihan Commercial Factoring Co., Ltd.")** . . . . .		PRC/Mainland China/ August 23, 2017	RMB50,000,000	100%	Commercial factoring
上海易付雲信息科技有限 公司 ("Shanghai Yifu Cloud Information Technology Co., Ltd.")** . . . . .		PRC/Mainland China/ October 19, 2017	RMB5,000,000	100%	Technology development

\* PnR Network Technology (Shanghai) Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.

\*\* These companies are wholly-owned subsidiaries of the Company and accordingly, are accounted for as subsidiaries by virtue of the Company's control over it.

\*\*\* These companies are subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over it.

The English names of all group companies registered in the PRC represent the best efforts made by management of the Company to translate the Chinese names of these companies as they do not have official English names.

- (1) The statutory financial statements for the years ended December 31, 2015 and 2016 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") have been audited by Ernst & Young Hua Ming LLP, Shanghai Branch (安永華明會計師事務所(特殊普通合夥)上海分所), a certified public accounting firm registered in the PRC.
- (2) The statutory financial statements for the year ended December 31, 2015 prepared in accordance with PRC GAAP have been audited by Ernst & Young Hua Ming LLP, Shanghai Branch (安永華明會計師事務所(特殊普通合夥)上海分所), a certified public accounting firm registered in the PRC. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with PRC GAAP have been audited by Shanghai HDDY Certified Public Accounting Co., Ltd. (上海宏大東亞會計師事務所有限公司), a certified public accounting firm registered in the PRC.
- (3) The statutory financial statements for the year ended December 31, 2015 prepared in accordance with PRC GAAP have been audited by Grant Thornton LLP, Shanghai Branch (致同會計師事務所(特殊普通合夥)上海分所), a certified public accounting firm registered in the PRC. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with PRC GAAP have been audited by Shanghai VICTOR VOYAGE Certified Public Accountants Co., Ltd. (上海錦航會計師事務所有限公司), a certified public accounting firm registered in the PRC.
- (4) The statutory financial statements for the year ended December 31, 2016 prepared in accordance with PRC GAAP have been audited by Ernst & Young Hua Ming LLP, Shanghai Branch (安永華明會計師事務所(特殊普通合夥)上海分所), a certified public accounting firm registered in the PRC.

## 2.1 BASIS OF PRESENTATION

Under the prevailing laws and regulations in the PRC, companies with foreign ownership are prohibited from merchant payment business and fintech enabling business (collectively “Relevant Business”) in Mainland China. The Group historically operated its Relevant Business in Mainland China through China PnR Co., Ltd. (“China PnR”) and its subsidiaries.

A series of contractual agreements (the “China PnR Structured Contracts”) was effectuated among China PnR, PnR Network Technology (Shanghai) Co., Ltd. (“PnR Network”) and Mr. ZHOU Ye, Mr. LIU Gang, Ms. MU Hai Jie, Mr. ZHANG Ge, Ms. XU Zhuo Min and Ms. CHEN Yan (collectively, the “Registered Shareholders”) who are the legal shareholders of China PnR.

The China PnR Structured Contracts provide the Group through PnR Network with effective control over China PnR. In particular, PnR Network undertakes to provide China PnR with certain technical services as required to support their operations. In return, PnR Network is entitled to all of the operating profits and residual benefits generated by China PnR through intercompany charges levied on these services rendered. The Registered Shareholders are also required to transfer their interests in China PnR to PnR Network or PnR Network’s designee upon a request made by PnR Network when permitted by the PRC laws for a consideration, as permitted under the PRC laws. The ownership interests in China PnR have also been pledged by the Registered Shareholders to PnR Network in respect of the continuing obligations of China PnR. PnR Network intends continuously to provide or to assist China PnR in obtaining financial support when deemed necessary. Accordingly, PnR Network has rights to variable returns from its involvement with China PnR and has the ability to affect those returns through its power over China PnR. As a result, China PnR was accounted for as a subsidiary of the Company.

Pursuant to the Reorganization as more fully explained in the paragraph headed “Our Reorganization” in the section headed “History and Reorganization” in the Prospectus, the Company became the holding company of the companies now comprising the Group on December 25, 2017. As the insertion of the Company as a new holding entity above an existing company has not resulted in any change of economic substance, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

All intra-group transactions and balances have been eliminated on consolidation.

## 2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from January 1, 2017, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for part of available-for-sale investments which have been measured at fair value.

The Group recorded net current liabilities of RMB56,719,000 and RMB147,335,000 as at December 31, 2016 and 2017, respectively.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash inflow from operations, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group has obtained adequate banking facilities from reputable financial institutions to meet its obligations as and when they fall due.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the Financial Information on a going concern basis.

## 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Historical Financial Information. The Group intends to adopt them, if applicable, when they become effective.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>1</sup></i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts<sup>1</sup></i>
IFRS 9	<i>Financial Instruments<sup>1</sup></i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation<sup>2</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>
IFRS 16	<i>Leases<sup>2</sup></i>
IFRS 17	<i>Insurance Contracts<sup>3</sup></i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement<sup>2</sup></i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures<sup>2</sup></i>
Amendments to IAS 40	<i>Transfers of Investment Property<sup>1</sup></i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments<sup>2</sup></i>
<i>Annual Improvements to IFRSs 2014-2016 Cycle</i>	Amendments to the following standards: - IFRS 1 <i>First-time Adoption of International Financial Reporting Standards<sup>1</sup></i> - IAS 28 <i>Investments in Associates and Joint Ventures<sup>1</sup></i>
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	Amendments to the following standards: - IFRS 3 <i>Business Combinations<sup>2</sup></i> - IFRS 11 <i>Joint Arrangements<sup>2</sup></i> - IAS 12 <i>Income Taxes<sup>2</sup></i> - IAS 23 <i>Borrowing Costs<sup>2</sup></i>

1 Effective for annual period beginning on or after January 1, 2018

2 Effective for annual period beginning on or after January 1, 2019

3 Effective for annual period beginning on or after January 1, 2021

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from January 1, 2018. During 2017, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyzes or additional reasonable and supportable information being made available to the Group in the future.



The expected impacts arising from the adoption of IFRS 9 are summarized as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognized.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortized cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9. The Group does not expect that the adoption of IFRS 9 will have a significant impact on the Group's financial performance and financial position, including the measurement of financial assets and disclosures.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard.

The directors of the Company consider that the requirements of revenue under IFRS 15 is similar to the current revenue recognition policy of the Group. Based on the preliminary analysis, they do not expect the initial adoption of IFRS 15 would result in significant impact on the amounts reported on the financial statements of the Group. However, there will be additional qualitative and quantitative disclosure upon the adoption of IFRS 15.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40 *Investment Property*. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease

payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The directors of the Company consider that the adoption of IFRS 16 will primarily affect the Group's accounting as a lessee of leases which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statements of profit or loss and other comprehensive income over the period of the lease. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at 31 December 2017 were RMB9,478,000, with the minimum lease payments due less than one year amounting to RMB8,474,000 and those due more than one year and less than five years amounting to RMB1,004,000. Given that the Group had total assets of RMB8,124,056,000 and total liabilities of RMB7,417,829,000 as at December 31, 2017, the directors of the Company is of the view that the initial adoption of IFRS 16 would not have significant impact on the financial performance and position of the Company.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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 described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

### Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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.

The Group's investment in associates are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are

made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of an associate are included in the consolidated statements of profit or loss and other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying

value may be impaired. The Group performs its annual impairment test of goodwill as at December 31,. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

#### Fair value measurement

The Group measures its available-for-sale investments at fair value at the end of each Relevant Periods. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each Relevant Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statements of profit or loss and other comprehensive income in the period in which it arises, (only if there are revalued assets in the Historical Financial Information) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;

- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings .....	2.71%
Leasehold improvement .....	2.86%-33.33%
Plant and machinery .....	19%-33.33%
Motor vehicles .....	19%
Office equipment .....	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the consolidated statements of profit or loss and other comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software is stated at cost less any impairment loss and is amortized on the straight-line basis over their estimated useful lives of 3 to 10 years.

*Research and development costs*

All research and development costs are charged to the consolidated statements of profit or loss and other comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statements of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statements of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Investments and other financial assets*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in profit or loss. The loss arising from impairment is recognized in profit or loss in finance cost for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognized in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's Consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through"



arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For financial assets that objective evidence of impairment exists, for instance, those balances relating to the wide-spread fraudulent card transactions were fully provided as impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Trade receivables and prepayments, deposits and other receivables meeting the following criteria are recognized as bad debts:

- the debtor is deceased or has been declared bankrupt and the debts remain uncollectible after considering the assets of the bankrupt or the estate of the deceased debtor;
- debts that are long overdue and there is also evidence indicating that the debts are uncollectible or the possibility of collection is remote.

Specific and general provisions are made to account for bad debt losses on trade receivables and prepayments, deposits and other receivables. A specific provision refers to an amount that is provided based on management's assessment of the recoverability of an individual receivable. A general provision is set up on the remaining balances of receivables based on their aging analysis, at the rates below:

<u>Aging</u>	<u>Rates</u>
Less than 3 months .....	0%
4 to 6 months .....	20%
7 to 12 months .....	50%
1 to 2 years .....	80%
Over 2 years .....	100%

Except for the impairment of other receivables which are individually assessed, trade and other receivables are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Given the huge transaction volumes with low unit transaction amount, and the customers not having other relevant factors such as geographical location, the Group determine aging as the most appropriate characteristic for credit risk evaluation. Aging is relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay the amounts of the assets being evaluated.

For collective evaluation of impairment of trade and other receivables, the Group use a provisioning matrix based on aging analysis, namely, 0% if less than 3 months, 20% if 4 to 6 months, 50% if 7 to 12 months, 80% if 1 to 2 years and 100% if more than 2 years. The Group are of the opinion that this provision matrix is reasonable based on the following assessment: (a) the Group revisited the historical loss experience for assets with similar credit risk characteristics and noted the actual loss are largely consistent with the provision matrix; (b) since 3 months is a normal reconciliation cycle for the Group to perform reconciliation with banks, it's reasonable not to record impairment for amounts aging within 3 months. From the historical data, a portion of amounts are still collected for those amounts aging between 1 to 2 years. For those amounts aging over 2 years, the chances of recovery are remote; (c) the Group made an estimated discount cash flows analysis and noted the results are close to the one using provision matrix. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each Relevant Periods whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss — is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated statements of profit or loss and other comprehensive income if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition as loans and borrowings.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, amounts due to shareholders, amounts due to related companies and interest-bearing bank and other borrowings.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

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

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

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

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the

deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each Relevant Periods and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

#### Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

#### Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Merchant payments

The Group provides comprehensive payment services to help clients accept, process and settle payment transactions across POS, Internet payment, mobile POS, and mobile payment scenarios. Revenue from the rendering of merchant payment services is recognized when services are rendered, provided that the revenue and the costs can be measured reliably. In particular, timing of revenue recognition of each major type of services is:

- POS — Revenue is recognized in step 7 of the diagram as illustrated in “Business—Merchant Payment Services—POS” when the Group send the confirmed results to the POS terminal of the merchants.

Mobile POS payments are processed in the same way as POS payments.

- Internet payments — Revenue is recognized in step 9 of the diagram as illustrated in “Business—Merchant Payment Services—Internet payments” when the Group forward the confirmed results to the merchants.

Mobile payments are processed in the same way as Internet payments.

- Cross-border payments are processed in the similar way as the above two types of services. Revenue from such services is recognized when services are rendered.
- The Group is also responsible for providing ongoing updates of system and technical support for the operation of the whole business of our clients. Given the Group’s efforts are expended evenly

throughout the period and contract term of such service is within one year, such revenue is recognized on a straight-line basis over the period when service are rendered and the revenue can be measured reliably.

The Group operates its merchant payment business through cooperation with various industry participants who provide the services and infrastructure needed to enable such transactions. The Group adopts gross revenue recognition methods for the merchant payment services. Revenue is recognized at gross amount and commission fee charged by these participants and processing fee charged by issuing banks or UnionPay are recorded in cost of sales, except the processing fee for issuing banks and the interchange fee for UnionPay which have been deducted by them directly in POS payments and mobile POS payments.

The Group take into account of various factors when determining whether revenue should be reported on a gross or net basis. The primary factor is whether the Group acting as a principal in offering services to customers or as an agent in the transaction. The Group has determined that it is acting as the principal in offering services wherever the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in suppliers selection; and (iv) has involvement in the determination of product or services specifications.

(b) Fintech enabling services

The Group have been developing and commercializing an increasing range of fintech enabling services for clients, which help Internet finance providers and other financial institutions in China to better design and administer customer account system, identify and mitigate risks, comply with changing regulations, and conduct data-driven marketing.

Revenue from fintech enabling services business is recognized ratably over the respective contract periods with the Internet finance provider and other financial institutions. The upfront fee received is recognized over the period of the benefit of the fee.

(c) Sales of payment terminals

Revenue from the sale of payment terminals is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the payment terminals sold.

(d) Rental income

Rental income is recognized on a time proportion basis over the lease terms.

(e) Interest income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(f) Dividend income

Dividend income is recognized when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the Historical Financial Information.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statements of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the canceled award, and is designated as a replacement award on the date that it is granted, the canceled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits*Pension Scheme*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain proportion of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.



Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK\$"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group during the Relevant Periods are within the PRC, the Group determined to present its Financial Information in RMB (unless otherwise stated).

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

**3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Group's Historical Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16.

*PRC corporate income tax ("CIT")*

The Group is subject to corporate income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgment

based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realize.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each Relevant Periods. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 20 to the Historical Financial Information.

*Impairment of non-financial assets (other than goodwill)*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the cash-generating units being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group.

*Share-based payments*

Estimating fair value for share-based payments transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The Group initially measures the cost of cash-settled transactions with employees using a binomial model to determine the fair value of the liability incurred. This requires a reassessment of the estimates used at the end of each Relevant Periods. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a binomial model for Employee Stock Ownership Plans ("ESOP"). The assumptions and models used for estimating fair value for share-based payments transactions are disclosed in Note 30.

#### 4. OPERATING SEGMENT INFORMATION

For management purpose, the Group has only one reportable operating segment which is the provision of payment solution services. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

##### Geographical information

No geographical information is presented as the Group's revenue from the external customers is derived solely from its operation in the Mainland China and no non-current assets of the Group are located outside the Mainland China.

##### Information about major customers

No sales to a single customer or a group of customers under common control accounted for 10% or more of the Group's revenue for each of the Relevant Periods.

#### 5. REVENUE, OTHER INCOME AND GAINS

Revenue mainly represents income from the merchant payment business revenue and the fintech enabling business revenue during the Relevant Periods.

An analysis of revenue, other income and gains from continuing operations is as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<b>Revenue</b>			
Merchant payment business revenue . . . . .	478,862	1,012,040	1,622,793
FinTech enabling business revenue . . . . .	74,724	69,609	99,937
Others . . . . .	2,129	13,128	3,526
	<u>555,715</u>	<u>1,094,777</u>	<u>1,726,256</u>
<b>Other income and gains, net</b>			
Gain on disposal of subsidiaries . . . . .	—	—	204
Gain on disposal of associates . . . . .	—	—	1,533
Interest income . . . . .	26,054	38,347	61,633
Investment income on available-for-sale investments . . . . .	6,852	22,439	29,094
Government grants . . . . .	46,418	29,703	31,802
Foreign exchange differences, net . . . . .	5,562	2,805	—
Others . . . . .	222	832	422
	<u>85,108</u>	<u>94,126</u>	<u>124,688</u>

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Cost of merchant payment business revenue		284,775	609,672	1,140,345
Cost of fintech enabling business revenue		11,991	10,986	15,637
Cost of other revenue		745	10,023	3,252
Depreciation of property, plant and equipment	14	15,504	27,092	117,174
Amortization of other intangible assets	17	6,070	6,962	8,081
Impairment of other intangible assets	7,17	—	1,788	—
Impairment of goodwill	7,16	—	4,108	—
Impairment of available-for-sale investments	7,19	3,120	—	—
Impairment of other receivables	7,23	70,699	43,617	31,637
Loss on disposal of items of property, plant and equipment	7	114	20,244	29,064
Auditor's remuneration		350	395	600
Employee benefit expense (including directors' and chief Executive's remuneration (note 9)):				
Wages and salaries		120,331	159,054	230,669
Equity-settled share option expense	30	1,890	1,176	33,694
Pension scheme contributions and social welfare		32,027	39,669	48,856
Foreign exchange differences, net	5,7	(5,562)	(2,805)	2,146

## 7. OTHER EXPENSES

An analysis of other expenses is as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Impairment of other receivables	70,699	43,617	31,637
Impairment of other intangible assets	—	1,788	—
Impairment of goodwill	—	4,108	—
Impairment of available-for-sale investments	3,120	—	—
Foreign exchange differences, net	—	—	2,146
Loss on disposal of items of property, plant and equipment	114	20,244	29,064
Penalty and compensation	658	1,719	1,226
Donation	500	115	1,122
Others	97	860	94
	<u>75,188</u>	<u>72,451</u>	<u>65,289</u>

## 8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings .....	1,215	3,060	10,442
Interest on other borrowings .....	319	12,107	11,843
	<u>1,534</u>	<u>15,167</u>	<u>22,285</u>

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind .....	2,471	2,283	2,367
Performance-related bonuses* .....	117	152	521
Equity-settled share option expense .....	119	99	5,354
Pension scheme contributions and social welfare .....	196	207	216
Total .....	<u>2,903</u>	<u>2,741</u>	<u>8,458</u>

\* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

During the Relevant Periods, certain directors were granted share options, in respect of their services to the Group, under the share option arrangements of the Company, further details of which are set out in note 30 to the Historical Financial Information. The fair value of such options, which has been recognized in the consolidated statements of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amounts included in the Historical Financial Information for the Relevant Periods are included in the above directors' and chief executive's remuneration disclosures.

## (a) Independent non-executive directors

Mr. LIU Jun, Mr. WANG Hengzhong and Ms. ZHANG Qi were appointed as independent non-executive directors of the Company on March 2, 2018. There were no remuneration payable to the independent non-executive directors during the Relevant Periods.

## (b) Executive directors, non-executive directors and the chief executive

Year ended December 31, 2015

	Salaries, allowances and benefits in kind	Performance- related bonuses	Equity-settled share option expense	Pension scheme contributions and social welfare	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
- Mr. ZHOU Ye .....	845	66	—	67	978
- Ms. MU Haijie .....	777	51	—	67	895
- Mr. JIN Yuan .....	849	—	119	62	1,030
	<u>2,471</u>	<u>117</u>	<u>119</u>	<u>196</u>	<u>2,903</u>

Year ended December 31, 2016

	Salaries, allowances and benefits in kind	Performance- related bonuses	Equity-settled share option expense	Pension scheme contributions and social welfare	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
- Mr. ZHOU Ye .....	812	66	—	69	947
- Ms. MU Haijie .....	775	54	—	69	898
- Mr. JIN Yuan .....	696	32	99	69	896
	<u>2,283</u>	<u>152</u>	<u>99</u>	<u>207</u>	<u>2,741</u>

Year ended December 31, 2017

	Salaries, allowances and benefits in kind	Performance- related bonuses	Equity-settled share option expense	Pension scheme contributions and social welfare	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
- Mr. ZHOU Ye .....	871	248	3,006	72	4,197
- Ms. MU Haijie .....	713	186	1,354	72	2,325
- Mr. JIN Yuan .....	783	87	994	72	1,936
	<u>2,367</u>	<u>521</u>	<u>5,354</u>	<u>216</u>	<u>8,458</u>

Mr. ZHOU Ye, Ms. MU Haijie and Mr. JIN Yuan were appointed as executive directors of the Company on December 21, 2017, March 2, 2018 and March 2, 2018, respectively. Detail remuneration information are listed as above.

Mr. CHYE Chia Chow, Mr. ZHOU Joe and Mr. CHEN Zhongjue were appointed as non-executive directors of the Company on March 2, 2018. There were no remuneration payable to the non-executive directors during the Relevant Periods.

Mr. ZHOU Ye was also appointed as chief executive officer of the Company on March 2, 2018. Detail remuneration information are listed as above.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

#### 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended December 31, 2015, 2016 and 2017 included 3 directors for each of the years, details of whose remuneration are set out in note 9 above. Details of the remuneration for the years ended December 31, 2015, 2016 and 2017 of the remaining 2 highest paid employees who are neither a director nor chief executive of the Company, respectively, are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind .....	1,513	1,625	1,937
Performance-related bonuses .....	95	82	289
Equity-settled share option expense .....	—	—	944
Pension scheme contributions and social welfare .....	135	138	154
Total .....	<u>1,743</u>	<u>1,845</u>	<u>3,324</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended December 31,		
	2015	2016	2017
HK\$500,001 to HK\$1,000,000 .....	—	1	—
HK\$1,000,001 to HK\$1,500,000 .....	2	1	—
HK\$1,500,001 to HK\$2,000,000 .....	—	—	1
HK\$2,000,001 to HK\$2,500,000 .....	—	—	<u>1</u>
Total .....	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the Historical Financial Information. The fair value of such options, which has been recognized in the consolidated statements of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the Historical Financial Information for the Relevant Periods are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## 11. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Group's subsidiaries incorporated in the Cayman Islands are not subject to any income tax.

Shanghai Payment and Remittance Data Service Co., Ltd., a subsidiary of the Group in Mainland China, was approved as High and New Technology Enterprise, and accordingly, it was subject to a reduced preferential corporate income tax rate of 15% for the year ended December 31, 2015. Moreover, according to announcement and circular issued by relevant government authorities, Shanghai Payment and Remittance Data Service Co., Ltd. was certified a national key software enterprise and was therefore subject to a preferential tax rate of 10% for the years ended December 31, 2016 and 2017.

Other subsidiaries of the Group operating in Mainland China are subject to the PRC corporate income tax rate of 25% for the Relevant Periods.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC corporate income tax .....	9,968	22,599	22,714
Deferred tax (note 20) .....	1,160	(1,637)	(144)
Total tax charge for the year .....	<u>11,128</u>	<u>20,962</u>	<u>22,570</u>

A reconciliation of income tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and its subsidiaries are domiciled to the income tax expense at the effective income tax rate for each of the Relevant Periods is as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit before tax .....	<u>3,554</u>	<u>139,695</u>	<u>155,396</u>
At the statutory income tax rate .....	889	34,924	38,849
Lower tax rates enacted by local authorities .....	(2,144)	(24,007)	(34,086)
Effect of change in tax rate on the opening balance of deferred tax .....	—	(682)	—
Losses attributable to associates .....	11	2,422	1,782
Additional deduction for research and development expense .....	(3,763)	(4,500)	(6,737)
Expenses not deductible for tax .....	11,801	8,658	15,361
Deductible temporary differences and tax losses not recognized .....	4,334	4,147	7,401
Tax charge at the Group's effective rate .....	<u>11,128</u>	<u>20,962</u>	<u>22,570</u>



Tax payable in the consolidated statements of financial position represents:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Tax payable			
PRC corporate income tax .....	—	1,449	108

## 12. DIVIDENDS

No dividends have been paid or declared by the Company during the Relevant Periods.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the preparation of the results of the Group for the Relevant Periods.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>December 31, 2015</b>							
At December 31, 2014 and January 1, 2015:							
Cost .....	—	11,411	51,815	2,223	6,707	—	72,156
Accumulated depreciation .....	—	(6,766)	(21,284)	(747)	(3,285)	—	(32,082)
Net carrying amount .....	—	4,645	30,531	1,476	3,422	—	40,074
At January 1, 2015, net of accumulated depreciation .....							
At January 1, 2015, net of accumulated depreciation .....	—	4,645	30,531	1,476	3,422	—	40,074
Additions .....	—	2,024	11,618	1,239	104	—	14,985
Disposals .....	—	—	(463)	—	(56)	—	(519)
Depreciation provided during the year .....	—	(4,377)	(9,750)	(460)	(917)	—	(15,504)
At December 31, 2015, net of accumulated depreciation .....	—	2,292	31,936	2,255	2,553	—	39,036
At December 31, 2015:							
Cost .....	—	13,435	62,257	3,462	6,683	—	85,837
Accumulated depreciation .....	—	(11,143)	(30,321)	(1,207)	(4,130)	—	(46,801)
Net carrying amount .....	—	2,292	31,936	2,255	2,553	—	39,036

**APPENDIX I**

**ACCOUNTANTS' REPORT**

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>December 31, 2016</b>							
At December 31, 2015 and January 1, 2016:							
Cost	—	13,435	62,257	3,462	6,683	—	85,837
Accumulated depreciation	—	(11,143)	(30,321)	(1,207)	(4,130)	—	(46,801)
Net carrying amount	—	<u>2,292</u>	<u>31,936</u>	<u>2,255</u>	<u>2,553</u>	—	<u>39,036</u>
At January 1, 2016, net of accumulated depreciation							
Accumulated depreciation	—	2,292	31,936	2,255	2,553	—	39,036
Additions	—	46	101,034	—	608	52,446	154,134
Acquisition of a subsidiary (note 33)	—	—	—	—	75	—	75
Disposals	—	—	(20,257)	(16)	(371)	—	(20,644)
Depreciation provided during the year	—	(2,174)	(23,290)	(598)	(1,030)	—	(27,092)
At December 31, 2016, net of accumulated depreciation	—	<u>164</u>	<u>89,423</u>	<u>1,641</u>	<u>1,835</u>	<u>52,446</u>	<u>145,509</u>
At December 31, 2016:							
Cost	—	13,481	124,248	3,139	6,900	52,446	200,214
Accumulated depreciation	—	(13,317)	(34,825)	(1,498)	(5,065)	—	(54,705)
Net carrying amount	—	<u>164</u>	<u>89,423</u>	<u>1,641</u>	<u>1,835</u>	<u>52,446</u>	<u>145,509</u>
	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>December 31, 2017</b>							
At December 31, 2016 and January 1, 2017:							
Cost	—	13,481	124,248	3,139	6,900	52,446	200,214
Accumulated depreciation	—	(13,317)	(34,825)	(1,498)	(5,065)	—	(54,705)
Net carrying amount	—	<u>164</u>	<u>89,423</u>	<u>1,641</u>	<u>1,835</u>	<u>52,446</u>	<u>145,509</u>
At January 1, 2017, net of accumulated depreciation							
Accumulated depreciation	—	164	89,423	1,641	1,835	52,446	145,509
Additions	—	—	432,883	338	7,106	397,206	837,533
Transfer	367,178	81,408	—	—	—	(448,586)	—
Disposals	—	—	(29,092)	(111)	(552)	—	(29,755)
Depreciation provided during the year	(8,305)	(3,038)	(103,493)	(565)	(1,773)	—	(117,174)
At December 31, 2017, net of accumulated depreciation	<u>358,873</u>	<u>78,534</u>	<u>389,721</u>	<u>1,303</u>	<u>6,616</u>	<u>1,066</u>	<u>836,113</u>
At December 31, 2017:							
Cost	367,178	94,889	511,544	3,145	12,013	1,066	989,835
Accumulated depreciation	(8,305)	(16,355)	(121,823)	(1,842)	(5,397)	—	(153,722)
Net carrying amount	<u>358,873</u>	<u>78,534</u>	<u>389,721</u>	<u>1,303</u>	<u>6,616</u>	<u>1,066</u>	<u>836,113</u>

As at December 31, 2015, 2016 and 2017, the application for the property ownership certificates for certain buildings of the Group with an aggregate net carrying value of nil, nil and RMB358,873,000, respectively, was still in progress. The directors of the Company are of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operations of the Group.

#### 15. PREPAID ACQUISITION PAYMENT

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayment for acquisition of property, plant and equipment .....	116,025	115,661	—
Prepayment for acquisition of other intangible assets .....	2,410	6,208	—
	<u>118,435</u>	<u>121,869</u>	<u>—</u>

#### 16. GOODWILL

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of the year:			
Cost .....	—	—	4,108
Accumulated impairment .....	—	—	(4,108)
Net carrying amount .....	<u>—</u>	<u>—</u>	<u>—</u>
Carrying amount at the beginning of the year .....	—	—	—
Acquisition of a subsidiary (note 33) .....	—	4,108	—
Impairment during the year .....	—	(4,108)	—
Carrying amount at the end of the year .....	<u>—</u>	<u>—</u>	<u>—</u>
At the end of the year:			
Cost .....	—	4,108	4,108
Accumulated impairment .....	—	(4,108)	(4,108)
Net carrying amount .....	<u>—</u>	<u>—</u>	<u>—</u>

## 17. OTHER INTANGIBLE ASSETS

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<u>Software</u>			
At beginning of the year:			
Cost .....	40,534	41,339	47,339
Accumulated amortization .....	(2,760)	(8,830)	(15,792)
Accumulated impairment .....	—	—	(1,788)
Net carrying amount .....	<u>37,774</u>	<u>32,509</u>	<u>29,759</u>
Carrying amount at the beginning of the year .....	37,774	32,509	29,759
Additions .....	805	3,781	16,781
Acquisition of a subsidiary (note 33) .....	—	2,219	—
Amortization provided during the year .....	(6,070)	(6,962)	(8,081)
Impairment during the year .....	—	(1,788)	—
Carrying amount at the end of the year .....	<u>32,509</u>	<u>29,759</u>	<u>38,459</u>
At the end of the year:			
Cost .....	41,339	47,339	64,120
Accumulated amortization .....	(8,830)	(15,792)	(23,873)
Accumulated impairment .....	—	(1,788)	(1,788)
Net carrying amount .....	<u>32,509</u>	<u>29,759</u>	<u>38,459</u>

## 18. INVESTMENT IN ASSOCIATES

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Share of net assets .....	<u>27,205</u>	<u>80,326</u>	<u>354</u>

The Group's trade receivable and payable balances with associates are disclosed in note 37 to the Historical Financial Information.

## (a) Particulars of the Group's associates

December 31, 2017

<u>Name of company</u>	<u>Place and year of registration</u>	<u>Paid-in capital RMB'000</u>	<u>Percentage of ownership interest attributable to the Group</u>	<u>Principal activities</u>
貴州金百合數據服務有限公司 ("Guizhou Golden Union Data Service Co., Ltd.")	Guizhou, PRC 2016	—	16%	Information services

December 31, 2016

<u>Name of company</u>	<u>Place and year of registration</u>	<u>Paid-in capital RMB'000</u>	<u>Percentage of ownership interest attributable to the Group</u>	<u>Principal activities</u>
上海匯付朗程創業投資管理有限公司 ..... ("Shanghai PnR LC Ventures Co., Ltd.")	Shanghai, PRC 2015	10,000	40%	Investment
上海匯付互聯網金融信息服務創業投資中心 (有限合夥) ..... ("Shanghai Huifu Internet Financial Information Venture Capital Investment Center (Limited Partnership)")	Shanghai, PRC 2015	310,000	16.29%	Investment
上海易日升金融服務有限公司 ..... ("Shanghai Yirisheng Financial Services Co., Ltd.")	Shanghai, PRC 2015	200,000	12.50%	Financing
成都金融資產交易中心股份有限公司 ..... ("Chengdu Financial Exchange Co., Ltd.")	Chengdu, PRC 2016	100,000	45%	Financing

December 31, 2015

<u>Name of company</u>	<u>Place and year of registration</u>	<u>Paid-in capital RMB'000</u>	<u>Percentage of ownership interest attributable to the Group</u>	<u>Principal activities</u>
上海匯付朗程創業投資管理有限公司 ..... ("Shanghai PnR LC Ventures Co., Ltd. ")	Shanghai, PRC 2015	10,000	40%	Investment
上海匯付互聯網金融信息服務創業投資中心 (有限合夥) ..... ("Shanghai Huifu Internet Financial Information Venture Capital Investment Center (Limited Partnership)")	Shanghai, PRC 2015	310,000	16.29%	Investment

The Group's shareholdings in the associates all comprise equity shares held by the wholly-owned subsidiaries of the Company.

(b) The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	<u>December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Share of the associates' losses for the year .....	(45)	(9,689)	(7,129)
Share of the associates' total comprehensive income for the year .....	(45)	(9,689)	(7,129)
Aggregate carrying amount of the group's investments in the associates .....	<u>27,205</u>	<u>80,326</u>	<u>354</u>

- (c) At December 31, 2016, the provision amounting to RMB7,560,000 represented share of loss of Chengdu Financial Exchange Co., Ltd. of which the Group had not yet paid up the capital.

## 19. AVAILABLE-FOR-SALE INVESTMENTS

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Debt investments, at fair value .....	133,263	310,831	70,623
Unlisted equity investments, at cost .....	3,120	3,120	14,920
Less: Impairment .....	<u>(3,120)</u>	<u>(3,120)</u>	<u>(3,120)</u>
	133,263	310,831	82,423
Less: Current .....	<u>5,115</u>	<u>86,000</u>	<u>70,623</u>
Non-current .....	<u>128,148</u>	<u>224,831</u>	<u>11,800</u>

The movements in impairment of available-for-sale investments are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of year .....	—	3,120	3,120
Impairment losses recognised .....	<u>3,120</u>	—	—
At end of the year .....	<u>3,120</u>	<u>3,120</u>	<u>3,120</u>

## 20. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

	Losses available for offsetting against future taxable profits	Temporary difference on unrealized profit of intercompany transactions	Total
	RMB'000	RMB'000	RMB'000
	At January 1, 2015 .....	1,032	2,555
Deferred tax charged to profit or loss during the year .....	<u>(1,032)</u>	<u>(455)</u>	<u>(1,487)</u>
At December 31, 2015 and January 1, 2016 .....	—	2,100	2,100
Deferred tax charged to profit or loss during the year .....	<u>—</u>	<u>(408)</u>	<u>(408)</u>
At December 31, 2016 and January 1, 2017 .....	—	1,692	1,692
Deferred tax credited to profit or loss during the year .....	<u>—</u>	<u>144</u>	<u>144</u>
At December 31, 2017 .....	<u>—</u>	<u>1,836</u>	<u>1,836</u>

Deferred tax liabilities

	<b>Depreciation difference for property, plant and equipment</b>
	<b>RMB'000</b>
At January 1, 2015 .....	2,372
Deferred tax credited to profit or loss during the year .....	<u>(327)</u>
At December 31, 2015 and January 1, 2016 .....	2,045
Deferred tax credited to profit or loss during the year .....	<u>(2,045)</u>
At December 31, 2016 and January 1, 2017 .....	—
Deferred tax charged/(credited) to profit or loss during the year .....	<u>—</u>
At December 31, 2017 .....	<u>—</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2015, 2016 and 2017, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately nil, nil and RMB113,482,000 as at December 31, 2015, 2016 and 2017, respectively.

**21. INVENTORIES**

	<b>December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Payment terminals and others .....	<u>6,317</u>	<u>20,859</u>	<u>2,172</u>

The directors of the Company are of the view that no provision for inventories is needed as at each of the Relevant Periods.

**22. TRADE RECEIVABLES**

	<b>December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables	<u>11,415</u>	<u>5,812</u>	<u>21,288</u>

The Group's trading terms with its customers are mainly on credit, where payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values. An aging analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Less than 1 year .....	11,081	5,762	21,257
Over 1 year .....	<u>334</u>	<u>50</u>	<u>31</u>
	<u>11,415</u>	<u>5,812</u>	<u>21,288</u>

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired .....	<u>11,415</u>	<u>5,812</u>	<u>21,288</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

### 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Receivable on behalf of clients .....	952,386	1,479,115	3,082,718
Interest receivable .....	3,062	1,747	1,437
Deposits .....	22,883	21,624	18,135
Other tax recoverable .....	2,781	16,263	56,756
Prepaid expenses .....	5,789	4,681	7,031
IPO expenses .....	—	—	2,500
Others .....	<u>1,622</u>	<u>2,755</u>	<u>3,794</u>
	988,523	1,526,185	3,172,371
Provision for impairment .....	<u>(152,142)</u>	<u>(195,759)</u>	<u>(227,396)</u>
	<u>836,381</u>	<u>1,330,426</u>	<u>2,944,975</u>

Other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment.



The movements in provision for impairment of other receivables are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of year	115,058	152,142	195,759
Impairment losses recognized	70,699	43,617	31,637
Amount written off	(33,615)	—	—
At end of the year	<u>152,142</u>	<u>195,759</u>	<u>227,396</u>

## 24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash and bank balances	2,631,912	3,964,921	3,520,903
Less: Restricted cash	2,418,287	3,788,968	3,216,167
	<u>213,625</u>	<u>175,953</u>	<u>304,736</u>

Restricted cash primarily consists of client reserve fund received on behalf of clients and amounts pledged to banks as collateral for issuance of letter of guarantee. As at December 31, 2015, 2016 and 2017, amounts held in client reserve fund designated bank accounts amounted to RMB2,370,739,000, RMB3,744,768,000 and RMB3,185,388,000, respectively; As at December 31, 2015, 2016 and 2017, pledged to banks as collateral for issuance of letter of guarantee and other specified use relating to payment business amounted to RMB47,548,000, RMB44,200,000, and RMB 30,779,000 respectively.

As at December 31, 2015, 2016 and 2017, major cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values.

## 25. TRADE PAYABLES

An aging analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Less than 1 year	38,813	27,735	175,096
Over 1 year	15,025	22,903	26,018
	<u>53,838</u>	<u>50,638</u>	<u>201,114</u>

The trade payables are unsecured, non-interest-bearing and repayable within the normal operating cycle or on demand.

The fair values of trade payables as at the end of each of the Relevant Periods approximated to their corresponding carrying amounts due to their relatively short maturity terms.

## 26. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Payable received on behalf of clients	3,205,975	4,527,455	5,761,187
Payable for acquisition of buildings	—	—	263,306
Deferred revenue	—	—	82,450
Payable to the third parties	4,508	6,280	16,215
Deposits	80,461	61,670	57,228
Deferred government grants	29,292	28,250	22,875
Payroll and welfare payable	30,354	39,841	53,617
Other tax payable	4,925	2,445	2,411
Accruals	4,738	10,623	25,196
Others	728	1,361	279
	<u>3,360,981</u>	<u>4,677,925</u>	<u>6,284,764</u>

The fair values of other payables at the end of each of the Relevant Periods approximated to their corresponding carrying amounts.

## 27. ADVANCES FROM CUSTOMERS

Advances from customers mainly represented the sales proceeds received from buyers in connection with the Group's pre-sale of payment terminals and service fees prepaid by customers for fintech enabling business to which related services have not been rendered at the end of each of the Relevant Periods.

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	December 31, 2015			December 31, 2016			December 31, 2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>									
Bank loans - unsecured	4.35-4.57	2016	41,361	3.70-4.35	2017	416,332	4.35-4.79	2018	370,315
Bank loans - secured	—	—	—	4.35-4.57	2017	117,316	—	—	—
Current portion of long term bank loans - unsecured	—	—	—	—	—	—	5.23	2018	10,000
Other loans - unsecured	7.00-8.20	2016	90,434	4.50-7.50	2017	232,700	—	—	—
			<u>131,795</u>			<u>766,348</u>			<u>380,315</u>
<b>Non-current</b>									
Bank loans - unsecured	—	—	—	—	—	—	5.23	2020	35,000
			<u>131,795</u>			<u>766,348</u>			<u>415,315</u>

**Bank and other borrowings**

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Repayable within one year .....	131,795	766,348	380,315
Repayable in the second year .....	—	—	10,000
Repayable in the third to fifth years .....	—	—	25,000
	<u>131,795</u>	<u>766,348</u>	<u>415,315</u>

The Group's borrowings are all denominated in RMB.

The Group's borrowings of RMB131,795,000, RMB766,348,000, and RMB415,315,000, as at December 31, 2015, 2016 and 2017, respectively, were borrowings with a floating interest rate.

As at December 31, 2016, PnR Holdings Limited, the immediate holding company of the Company, had pledged a bank deposit of US\$19,760,000 for certain of the Group's bank borrowings of RMB117,316,000.

Management of the Company has assessed that the fair values of interest-bearing bank borrowings and other borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and independent third party financial institutions based on prevailing market interest rates.

**29. SHARE CAPITAL**

	December 31,		
	2015	2016	2017
	HK\$	HK\$	HK\$
Authorized:			
3,800,000,000 ordinary shares of HK\$0.0001 each .....	—	—	380,000
Issued and fully paid:			
2 ordinary shares of HK\$0.0001 each .....	—	—	—

The Company was incorporated in the Cayman Islands on December 21, 2017 with an authorized share capital of HK\$380,000 divided in 3,800,000,000 shares of HK\$0.0001 par value each. On its date of incorporation, 1 ordinary share of HK\$0.0001 was allotted by the Company to a subscriber, and was transferred to PnR Holdings Limited on the same date.

On December 25, 2017, 1 ordinary share of the Company was allotted and issued to PnR Holdings Limited with a consideration of RMB499,867,000.

On January 29, 2018, the Company issued 1,026,199,359 ordinary shares with a par value of HK\$0.0001 each to PnR Holdings Limited for a consideration of US\$4,500,000.

**30. SHARE OPTION ARRANGEMENTS**

## (a) Share option under the PnR Series B ESOP Plan

On September 16, 2011, the Board of Directors of the PnR Holdings Limited approved the establishment of the PnR Series B ESOP Plan with the purpose of providing incentive to senior management, mid-level employees and staffs contributing to the Group. The PnR Series B ESOP Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued by all awards under the PnR Series B ESOP Plan shall be 95,271,885 shares.

The exercise price of all granted options to senior management, mid-level employees and staffs is US\$0.18 per ordinary share. 10%, 15%, 20%, 25% and 30% of the shares subject to the option shall vested at the first, second, third, fourth and fifth anniversaries of the Vesting Commencement Date, respectively. The Vesting Commencement Date should be determined by grantees for each grant agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vested. Once vested, the vested portion of the option may be exercised in whole or in part, in any time.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Movements in the number of the share options granted to senior management, mid-level employees and staffs and their weighted average exercise prices are as below:

	Exercise price	Number of share options		
		Year ended December 31,		
		2015	2016	2017
At the beginning of the year		95,271,885	95,271,885	95,271,885
Granted	US\$0.18	—	—	—
Forfeited	US\$0.18	—	—	—
At the end of the year		<u>95,271,885</u>	<u>95,271,885</u>	<u>95,271,885</u>

As at December 31, 2015, 2016 and 2017, 85,339,890, 89,363,600 and 92,866,605 outstanding options were exercisable.

The directors have used the DCF method to determine the underlying equity fair value of the Group and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rates and projections of future performance, are required to be determined by the directors with best estimate.

Based on the fair value of the underlying ordinary share, the director have used binomial model to determine the fair value of the share option as at the grant date. Key assumptions are set as below:

	Year ended December 31,		
	2015	2016	2017
Risk-free interest rate	2.98%	2.98%	2.98%
Volatility	37%	37%	37%
Dividend yield	0%	0%	0%

The directors estimated the risk-free interest rate based on the yield of United States Treasury Securities with a maturity life close to the option life of the share option. Volatility was estimated at granted date based on average historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date. The total expense recognized in the consolidated statements of profit or loss and other comprehensive income for the share option granted to senior management, mid-level employees and staffs were RMB1,890,000, RMB1,176,000 and RMB560,000 for the years ended December 31 2015, 2016 and 2017.

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of the share option expense charged to the consolidated statements of profit or loss and other comprehensive income. As at December 31 2015, 2016 and 2017, the expected retention rates for the senior management were assessed to be 95%, 95% and 95%, respectively; the expected retention rates for the mid-level employees and staffs were assessed to be 90%, 90% and 90%, respectively.

(b) Share option under the PnR Series C ESOP Plan

On December 12, 2017, the Board of Directors of the PnR Holdings Limited approved the establishment of the PnR Series C ESOP Plan with the purpose of providing incentive to senior management, mid-level employees and staffs contributing to the Group. The PnR Series C ESOP Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued by all awards under the PnR Series C ESOP Plan shall be 90,320,084 shares.

The exercise price of all granted options to senior management, mid-level employees and staffs is US\$0.55 per ordinary share. 25%, 25%, 25% and 25% of the shares subject to the option shall vested at the first, second, third and fourth anniversaries of the Vesting Commencement Date, respectively. The Vesting Commencement Date should be determined by grantees for each grant agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vested. Once vested, the vested portion of the option may be exercised in whole or in part, in any time.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Movement in the number of the share options granted to senior management, mid-level employees and staffs and their weighted average exercise prices is as below:

	Exercise price	Number of share options		
		Year ended December 31,		
		2015	2016	2017
At the beginning of the year		—	—	—
Granted	US\$0.55	—	—	90,320,084
Forfeited	US\$0.55	—	—	—
At the end of the year		—	—	90,320,084

As at December 31, 2015, 2016 and 2017, nil, nil and 45,160,042 outstanding options were exercisable.

The directors have used the DCF method to determine the underlying equity fair value of the Group and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rates and projections of future performance, are required to be determined by the directors with best estimate.

Based on the fair value of the underlying ordinary share, the director have used binomial model to determine the fair value of the share option as at the grant date. Key assumptions are set as below:

	Year ended December 31,		
	2015	2016	2017
Risk-free interest rate .....	n/a	n/a	2.39%
Volatility .....	n/a	n/a	34%
Dividend yield .....	n/a	n/a	0%

The directors estimated the risk-free interest rate based on the yield of United States Treasury Securities with a maturity life close to the option life of the share option. Volatility was estimated at granted date based on average historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date. The total expense recognized in the consolidated statements of profit or loss and other comprehensive income for the share option granted to senior management, mid-level employees and staffs were nil, nil and RMB33,134,000 for the years ended December 31 2015, 2016 and 2017.

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of the share option expense charged to the consolidated statements of profit or loss and other comprehensive income. As at December 31, 2017, the expected retention rate for the senior management was assessed to be 95%; the expected retention rate for the mid-level or below employees was assessed to be 90%.

(c) Share option under the PnR Series D ESOP Plan

On January 20, 2018, the Board of Directors of the PnR Holdings Limited approved the establishment of the PnR Series D ESOP Plan with the purpose of providing incentive to senior management, mid-level employees and staffs contributing to the Group. The PnR Series D ESOP Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued by all awards under the PnR Series D ESOP Plan shall be 116,331,968 shares.

(d) Replacement of the PnR ESOP Plans

The PnR Series B ESOP Plan, PnR Series C ESOP Plan and PnR Series D ESOP Plan are collectively called the PnR ESOP Plans.

On January 20, 2018, the Company's board of directors approved to adopt the Huifu ESOP Plans to substitute the PnR ESOP Plans. The Huifu ESOP Plans will come into effect upon the termination of PnR ESOP Plans and, together with PnR ESOP Plans, are a total package and arrangement for the employees and management of the PnR Holdings Limited. All key items in Huifu ESOP Plans are the same as those in PnR ESOP Plans and therefore such arrangement was accounted for as a share option replacement.

### 31. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended December 31, 2015, 2016 and 2017 are presented in the consolidated statements of changes in equity.

(a) Capital reserve

The capital reserve represents share premium of the Company. Details of the movement in capital reserve are set out in the consolidated statements of changes in equity.

## (b) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in Mainland China, the Group is required to appropriate 10% of its net profits after tax, as determined under the Chinese Accounting Standards, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Group, the statutory surplus reserve may be used either to offset losses, or to be converted to increase share capital provided that the balance after such conversion is not less than 25% of the registered capital of the Group. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

**32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Due to related companies	Total liabilities from financing activities
	RMB'000	RMB'000	RMB'000
At January 1, 2015	21,361	—	21,361
Changes from financing activities	<u>110,434</u>	<u>236,025</u>	<u>346,459</u>
At December 31, 2015	<u>131,795</u>	<u>236,025</u>	<u>367,820</u>
Changes from financing activities	<u>634,553</u>	<u>116,169</u>	<u>750,722</u>
At December 31, 2016	<u>766,348</u>	<u>352,194</u>	<u>1,118,542</u>
Changes from financing activities	<u>(351,033)</u>	<u>139,495</u>	<u>(211,538)</u>
At December 31, 2017	<u><u>415,315</u></u>	<u><u>491,689</u></u>	<u><u>907,004</u></u>

**33. BUSINESS COMBINATION**

On April 27, 2016, the Group set up the PnR JH Tech Co., Ltd., and held 51% equity interests of PnR JH Tech Co., Ltd. On July 1, 2016, PnR JH Tech Co., Ltd. acquired a 100% interest in Nanjing Dechen Information Technology Co., Ltd. ("Nanjing Dechen") from third parties. Nanjing Dechen is engaged in the software development. The fair values of the identifiable assets and liabilities of Nanjing Dechen as at the date of acquisition were as follows:

	Notes	Fair value recognized on acquisition RMB'000
Property, plant and equipment	14	75
Other intangible assets	17	2,219
Prepayments, deposits and other receivables		77
Cash and cash equivalents		326
Other payables, deposits received and accruals		<u>(2,305)</u>
Total identifiable net assets at fair value		392
Non-controlling interests		—
Goodwill on acquisition	16	<u>4,108</u>
Satisfied by cash		<u><u>4,500</u></u>

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration . . . . .	(4,500)
Cash and cash equivalents balances acquired . . . . .	<u>326</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities . . . . .	<u>(4,174)</u>

#### 34. DISPOSAL OF SUBSIDIARIES

上海匯付投資管理有限公司(“Shanghai PnR Investment Management Co., Ltd.”)

Pursuant to the share transfer agreement dated November 30, 2017, the Group disposed of its 100% equity interest in Shanghai PnR Investment Management Co., Ltd. to Mr. ZHOU Ye, Mr. LIU Gang and Ms. MU Hai Jie for cash considerations of RMB18,935,000, RMB6,311,000 and RMB6,311,000, respectively. The considerations were determined by reference to the corresponding valuation result of the equity interest in Shanghai PnR Investment Management Co., Ltd. as at November 30, 2017.

	2017 RMB'000
Net assets disposed of:	
Investments in associates . . . . .	59,311
Prepayments, deposits and other receivables . . . . .	1
Cash and cash equivalents . . . . .	6
Other payables, deposits received and accruals . . . . .	(6)
Due to related companies . . . . .	<u>(25,010)</u>
	34,302
Non-controlling interests . . . . .	—
Loss on disposal of a subsidiary . . . . .	<u>(2,745)</u>
Cash consideration . . . . .	<u>31,557</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	RMB'000
Cash consideration . . . . .	31,557
Less: due from management personnel . . . . .	(31,557)
Cash and cash equivalents disposed of . . . . .	<u>(6)</u>
Net outflow of cash and cash equivalents in respect of the disposal of Shanghai PnR Investment Management Co., Ltd. . . . .	<u>(6)</u>

上海匯付信息技術有限公司(“Shanghai PnR Information Technology Co.,Ltd.”)

Pursuant to the share transfer agreement dated November 30, 2017, the Group disposed of its 100% equity interest in Shanghai PnR Information Technology Co., Ltd. to Shanghai PnR Investment Management Co., Ltd.



for cash considerations of RMB50,000,000. The considerations were determined by reference to the share capital of Shanghai PnR Information Technology Co., Ltd. as at November 30, 2017.

	<u>2017</u>
	<u>RMB'000</u>
Net assets disposed of:	
Available-for-sale investments .....	50,930
Inventories .....	2,871
Trade receivables .....	15
Prepayments, deposits and other receivables .....	22
Cash and cash equivalents .....	35
Other payables, deposits received and accruals .....	(6,806)
	<u>47,067</u>
Non-controlling interests .....	—
Gain on disposal of a subsidiary .....	<u>2,933</u>
Cash consideration .....	<u><u>50,000</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	<u>RMB'000</u>
Cash consideration .....	50,000
Less: due from a related company .....	(50,000)
Cash and cash equivalents disposed of .....	<u>(35)</u>
Net outflow of cash and cash equivalents in respect of the disposal of Shanghai PnR Information Technology Co., Ltd. ....	<u><u>(35)</u></u>

嘉興匯付潤微投資管理有限公司 (“Jiaxing Huifu Runwei Investment Management Co., Ltd.”)

Pursuant to the share transfer agreement dated November 30, 2017, the Group disposed of its 100% equity interest in Jiaxing Huifu Runwei Investment Management Co., Ltd. to Shanghai PnR Investment Management Co., Ltd. for cash considerations of RMB1. The considerations were determined by the nominal amount.

	<u>2017</u>
	<u>RMB'000</u>
Net assets disposed of:	
Other payables, deposits received and accruals .....	(6)
Due to related companies .....	<u>(10)</u>
	(16)
Non-controlling interests .....	—
Gain on disposal of a subsidiary .....	<u>16</u>
Cash consideration .....	<u><u>—</u></u>

**35. OPERATING LEASE ARRANGEMENTS**As lessee

The Group leases certain of its office properties under operating lease arrangements, negotiated for terms of 1 to 3 years with an option for renewal after the end of lease terms, at which time all terms will be renegotiated.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within one year . . . . .	17,246	16,956	8,474
In the second to fifth years, inclusive . . . . .	12,623	7,757	1,004
	<u>29,869</u>	<u>24,713</u>	<u>9,478</u>

**36. COMMITMENTS**

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Acquisition of property, plant and equipment . . . . .	<u>269,876</u>	<u>269,876</u>	<u>—</u>
Investment commitments for:			
Shanghai Huifu Internet			
Financial Information Venture			
Capital Investment Center (Limited Partnership) . . . . .	25,250	—	—
Chengdu Financial Exchange Co., Ltd. . . . .	—	45,000	—
Guizhou Golden Union Data Service Co., Ltd. . . . .	—	—	<u>19,200</u>

## 37. RELATED PARTY TRANSACTIONS

## (1) Name and relationship

Name of related party	Relationship with the Group
PnR Holdings Limited	Immediate holding company
Mr. ZHOU Ye	management personnel
Mr. LIU Gang	management personnel
Ms. MU Hai Jie	management personnel
貴州金百合數據服務有限公司 ("Guizhou Golden Union Data Service Co., Ltd.")	Associate
上海易日升金融服務有限公司 ("Shanghai Yirisheng Financial Services Co., Ltd.") (note(i))	Associate
成都金融資產交易中心股份有限公司 ("Chengdu Financial Exchange Co., Ltd.") (note(ii))	Associate
上海易搜商務諮詢有限公司 ("Yisou Business Consulting Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海匯付金融服務有限公司 ("PnR Finance Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海匯付科技有限公司 ("Shanghai PnR Technology Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
慧釜融資租賃(上海)有限公司 ("Hui Fu Financial Leasing Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海華騰數據信息科技有限公司 ("Shanghai Huateng Data Information Technology Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海華騰智能系統有限公司 ("Shanghai Huateng Intellect System Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
惠涪網絡技術(上海)有限公司 ("Huifu Network Technology (Shanghai) Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海匯付投資管理有限公司 ("Shanghai PnR Investment Management Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海匯付康寧信息科技有限公司 ("Shanghai PnR Kangning Information Technology Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海外灘雲財金融服務有限公司 ("Bund Wealth Financial Services Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
上海匯付信息技術有限公司 ("Shanghai PnR Information Technology Co.,Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel
嘉興匯付潤微投資管理有限公司 ("Jiaying HuiFu Runwei Investment Management Co., Ltd.")	Company controlled, jointly controlled or significantly influenced by management personnel

## Notes:

- (i) Equity interest of Shanghai Yirisheng Financial Services Co., Ltd. was disposed to Mr. Zhou Ye, Mr. LIU Gang and Ms. MU Hai Jie on November 30, 2017. In the opinion of the Directors, Shanghai Yirisheng Financial Services Co., Ltd. was no longer regarded as a related party of the Group.
- (ii) Equity interest of Chengdu Financial Exchange Co., Ltd. was disposed to Mr. Zhou Ye, Mr. LIU Gang and Ms. MU Hai Jie on November 30, 2017. In the opinion of the Directors, Chengdu Financial Exchange Co., Ltd. was no longer regarded as a related party of the Group.

**(2) Significant related party transactions**

The following transactions were carried out with related parties during the Relevant Periods:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Advances to management personnel			
Mr. ZHOU Ye	64,750	30	136,641
Mr. LIU Gang	8,000	—	42,210
Ms. MU Hai Jie	8,000	—	42,210
Repayment of advances to management personnel			
Mr. ZHOU Ye	—	780	16,000
Mr. LIU Gang	—	—	2,000
Ms. MU Hai Jie	—	—	2,000
Advances to related companies			
Bund Wealth Financial Services Co., Ltd.	3,000	30,831	123,861
Yisou Business Consulting Co., Ltd.	—	—	110,634
Shanghai PnR Investment Management Co., Ltd.	—	—	7,500
Shanghai PnR Kangning Information Technology Co., Ltd.	—	—	500
Hui Fu Financial Leasing Co., Ltd.	—	237,230	410
Shanghai PnR Information Technology Co., Ltd.	—	—	2
Shanghai Yirisheng Financial Services Co., Ltd.	—	145,350	—
PnR Finance Ltd.	36,961	16,569	—
Shanghai PnR Technology Co., Ltd.	8	—	—
Huifu Network Technology (Shanghai) Co., Ltd.	1	—	—
Repayment of advances to related companies			
Hui Fu Financial Leasing Co., Ltd.	—	—	134,704
Yisou Business Consulting Co., Ltd.	—	41,020	110,634
Bund Wealth Financial Services Co., Ltd.	—	3,164	62,456
Shanghai PnR Investment Management Co., Ltd.	—	—	10
Jiaxing Huifu Runwei Investment Management Co., Ltd.	—	—	10
Shanghai PnR Information Technology Co., Ltd.	—	—	2
PnR Finance Ltd.	45,842	230,671	—
Shanghai Yirisheng Financial Services Co., Ltd.	—	145,350	—
Shanghai PnR Technology Co., Ltd.	2,989	51	—
Huifu Network Technology (Shanghai) Co., Ltd.	—	1	—
Advances to the immediate holding company			
PnR Holdings Limited	—	39	—
Advances from related companies			
Huifu Network Technology (Shanghai) Co., Ltd.	216,025	134,056	975,995
Yisou Business Consulting Co., Ltd.	—	2,113	500

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Chengdu Financial Exchange Co., Ltd. . . . .	—	—	333
PnR Finance Ltd. . . . .	20,000	—	—
Repayments of advances from related companies			
Huifu Network Technology (Shanghai) Co., Ltd. . . . .	—	—	834,887
Yisou Business Consulting Co., Ltd. . . . .	—	—	2,113
Chengdu Financial Exchange Co., Ltd. . . . .	—	—	250
PnR Finance Ltd. . . . .	—	20,000	—
Sales of goods or services			
Bund Wealth Financial Services Co., Ltd. . . . .	2,788	10,103	7,106
Shanghai Yirisheng Financial Services Co., Ltd. . . . .	—	233	1,417
Yisou Business Consulting Co., Ltd. . . . .	—	126	1,173
PnR Finance Ltd. . . . .	1,132	130	310
Shanghai PnR Investment Management Co., Ltd. . . . .	—	—	53
Chengdu Financial Exchange Co., Ltd. . . . .	—	15,149	49
Shanghai Huateng Data . . . . .			
Information Technology Co., Ltd. . . . .	9,432	526	—
Shanghai PnR Technology Co., Ltd. . . . .	1,105	69	—
Hui Fu Financial Leasing Co., Ltd. . . . .	—	27	—
Rental income			
Hui Fu Financial Leasing Co., Ltd. . . . .	—	—	1,860
Shanghai Huateng Intellect System Co., Ltd. . . . .	—	—	349
Shanghai Huateng Data Information Technology Co., Ltd. . . . .	—	—	348
Bund Wealth Financial Services Co., Ltd. . . . .	—	—	192
Chengdu Financial Exchange Co., Ltd. . . . .	—	—	26
Sales of credit assets			
Yisou Business Consulting Co., Ltd. . . . .	22,797	—	—
Transfers of shares of subsidiaries			
Shanghai PnR Investment Management Co., Ltd. . . . .	—	—	50,000
Mr. ZHOU Ye . . . . .	—	—	18,935
Mr. LIU Gang . . . . .	—	—	6,311
Ms. MU Hai Jie . . . . .	—	—	6,311
Transfer of shares of associates			
Shanghai PnR Investment Management Co., Ltd. . . . .	—	—	55,838
Purchases of goods or services			
Guizhou Golden Union Data Service Co., Ltd. . . . .	—	—	122,519
Shanghai PnR Technology Co., Ltd. . . . .	—	348	5,318
Bund Wealth Financial Services Co., Ltd. . . . .	15	996	1,088
PnR Finance Ltd. . . . .	—	7	228

Note: These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

### (3) Other transactions with related parties

At December 31, 2016, PnR Holdings Limited, the immediate holding company of the Company, had pledged a bank deposit of US\$19,760,000 for certain of the Group's bank borrowings of RMB117,316,000 (note 28).

## (4) Outstanding balances with related parties

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<b>Due from management personnel:</b>			
<b>Non trade-related:</b>			
Mr. ZHOU Ye .....	80,750	80,000	219,576
Mr. LIU Gang .....	10,000	10,000	56,521
Ms. MU Hai Jie .....	10,000	10,000	56,521
	<u>100,750</u>	<u>100,000</u>	<u>332,618</u>
<b>Due from the immediate holding company:</b>			
<b>Non trade-related:</b>			
PnR Holdings Limited .....	566	605	605
	<u>566</u>	<u>605</u>	<u>605</u>
<b>Due from related companies:</b>			
<b>Non trade-related:</b>			
Shanghai PnR Investment Management Co., Ltd. ....	—	—	138,338
Hui Fu Financial Leasing Co., Ltd. ....	—	237,230	102,936
Bund Wealth Financial Services Co., Ltd. ....	3,000	30,667	92,072
Shanghai PnR Kangning Information Technology Co., Ltd. ....	—	—	500
PnR Finance Ltd. ....	214,102	—	—
Yisou Business Consulting Co., Ltd. ....	41,020	—	—
Shanghai PnR Technology Co., Ltd. ....	51	—	—
Huifu Network Technology (Shanghai) Co., Ltd. ....	1	—	—
	<u>258,174</u>	<u>267,897</u>	<u>333,846</u>
<b>Due from related companies:</b>			
<b>Trade-related:</b>			
Yisou Business Consulting Co., Ltd. ....	22,797	15	624
Bund Wealth Financial Services Co., Ltd. ....	2,941	509	191
Shanghai Huateng Data Information Technology Co., Ltd. ....	1,555	—	112
Shanghai Huateng Intellect System Co., Ltd. ....	—	—	112
Shanghai PnR Investment Management Co., Ltd. ....	—	—	53
Chengdu Financial Exchange Co., Ltd. ....	—	14,122	—
Shanghai PnR Technology Co., Ltd. ....	179	—	—
PnR Finance Ltd. ....	5	—	—
	<u>27,477</u>	<u>14,646</u>	<u>1,092</u>
<b>Due to related companies:</b>			
<b>Non-trade-related:</b>			
Huifu Network Technology (Shanghai) Co., Ltd. ....	216,025	350,081	491,189
Yisou Business Consulting Co., Ltd. ....	—	2,113	500
PnR Finance Ltd. ....	20,000	—	—
	<u>236,025</u>	<u>352,194</u>	<u>491,689</u>
<b>Due to related companies:</b>			
<b>Trade-related:</b>			
Guizhou Golden Union Data Service Co., Ltd. ....	—	—	19,604
PnR Finance Ltd. ....	—	—	55
	<u>—</u>	<u>—</u>	<u>19,659</u>

Balances with the above related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

## (5) Compensation of key management personnel of the Group:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Short-term employee benefits .....	3,658	3,721	4,359
Equity-settled share option expense .....	310	244	6,862
Pension scheme contributions .....	332	344	361
Total compensation paid to key management personnel	<u>4,300</u>	<u>4,309</u>	<u>11,582</u>

Further details of directors' emoluments are included in note 9 to the Historical Financial Information.

## 38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of Relevant Periods are as follows:

December 31, 2017

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments .....	—	82,423	82,423
Trade receivables .....	21,288	—	21,288
Due from management personnel .....	332,618	—	332,618
Due from related companies .....	334,938	—	334,938
Due from the immediate holding company .....	605	—	605
Financial assets included in prepayments, deposits and other receivables (note 23) .....	2,878,688	—	2,878,688
Restricted cash .....	3,216,167	—	3,216,167
Cash and cash equivalents .....	304,736	—	304,736
	<u>7,089,040</u>	<u>82,423</u>	<u>7,171,463</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

Financial liabilities

	<b>Financial liabilities at amortized cost</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables . . . . .	201,114	201,114
Financial liabilities included in other payables, deposits received and accruals (note 26) . . . . .	6,098,215	6,098,215
Due to related companies . . . . .	511,348	511,348
Interest-bearing bank and other borrowings (note 28) . . . . .	415,315	415,315
	<u>7,225,992</u>	<u>7,225,992</u>

December 31, 2016

Financial assets

	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Available-for-sale investments . . . . .	—	310,831	310,831
Trade receivables . . . . .	5,812	—	5,812
Due from management personnel . . . . .	100,000	—	100,000
Due from related companies . . . . .	282,543	—	282,543
Due from the immediate holding company . . . . .	605	—	605
Financial assets included in prepayments, deposits and other receivables (note 23) . . . . .	1,309,482	—	1,309,482
Restricted cash . . . . .	3,788,968	—	3,788,968
Cash and cash equivalents . . . . .	175,953	—	175,953
	<u>5,663,363</u>	<u>310,831</u>	<u>5,974,194</u>

December 31, 2016

Financial liabilities

	<b>Financial liabilities at amortized cost</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables . . . . .	50,638	50,638
Financial liabilities included in other payables, deposits received and accruals (note 26) . . . . .	4,596,766	4,596,766
Due to related companies . . . . .	352,194	352,194
Interest-bearing bank and other borrowings (note 28) . . . . .	766,348	766,348
	<u>5,765,946</u>	<u>5,765,946</u>



December 31, 2015

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale investments .....	—	133,263	133,263
Trade receivables .....	11,415	—	11,415
Due from management personnel .....	100,750	—	100,750
Due from related companies .....	285,651	—	285,651
Due from the immediate holding company .....	566	—	566
Financial assets included in prepayments, deposits and other receivables (note 23) .....	827,811	—	827,811
Restricted cash .....	2,418,287	—	2,418,287
Cash and cash equivalents .....	213,625	—	213,625
	<u>3,858,105</u>	<u>133,263</u>	<u>3,991,368</u>

Financial liabilities

	Financial liabilities at amortized cost	Total
	RMB'000	RMB'000
Trade payables .....	53,838	53,838
Financial liabilities included in other payables, deposits received and accruals (note 26) .....	3,291,672	3,291,672
Due to related companies .....	236,025	236,025
Interest-bearing bank and other borrowings (note 28) .....	131,795	131,795
	<u>3,713,330</u>	<u>3,713,330</u>

**39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The carrying amounts and fair values of the Group's financial instruments as at the end of each of the Relevant Periods, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts			Fair values		
	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2015	December 31, 2016	December 31, 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>						
Available-for-sale investments (note 19) . . .	<u>133,263</u>	<u>310,831</u>	<u>70,623</u>	<u>133,263</u>	<u>310,831</u>	<u>70,623</u>

Management has assessed that the fair values of cash and cash equivalents, restricted cash, amounts due from related companies, amounts due from the immediate holding company, amounts due from management

personnel, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables, deposits received and accruals, amounts due to related companies and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the chief finance officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for annual financial reporting.

For the fair values of the available-for-sale investments, management has estimated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value:

As at December 31, 2017

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB'000	RMB'000	RMB'000
Available-for-sale investments .....	—	<u>70,623</u>	—

As at December 31, 2016

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB'000	RMB'000	RMB'000
Available-for-sale investments .....	—	<u>310,831</u>	—

As at December 31, 2015

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB'000	RMB'000	RMB'000
Available-for-sale investments .....	—	<u>133,263</u>	—

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and liabilities.

#### 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and bank balances, restricted cash, trade and other receivables, trade payables and other payables, which arise directly from its operations. The Group has other financial assets and liabilities such as interest-bearing bank and other borrowings, amounts due to related companies and amounts due from related companies. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below:

(a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings set out in note 28. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using variable rate bank borrowings and other borrowings.

If the interest rate of bank and other borrowings had increased/decreased by 1% and all other variables held constant, the profit before tax of the Group, through the impact on floating rate borrowings, would have decreased/increased by approximately RMB1,318,000, RMB7,663,000, and RMB4,153,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

(b) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. The Group has no concentrations of credit risk in view of its large number of customers.

The credit risk of the Group's other financial assets, which mainly comprise restricted cash, other receivables, and amounts due from related companies, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. Cash flows are closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of the Relevant Periods, based on contractual undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>December 31, 2017</b>					
Interest-bearing bank and other borrowings . . . . .	—	62,641	330,452	37,400	430,493
Trade payables . . . . .	201,114	—	—	—	201,114
Financial liabilities included in other payables, deposits received and accruals . . . . .	6,098,215	—	—	—	6,098,215
Due to related companies . . . . .	511,348	—	—	—	511,348
	<u>6,810,677</u>	<u>62,641</u>	<u>330,452</u>	<u>37,400</u>	<u>7,241,170</u>
<b>December 31, 2016</b>					
Interest-bearing bank and other borrowings . . . . .	—	629,171	141,732	—	770,903
Trade payables . . . . .	50,638	—	—	—	50,638
Financial liabilities included in other payables, deposits received and accruals . . . . .	4,596,766	—	—	—	4,596,766
Due to related companies . . . . .	352,194	—	—	—	352,194
	<u>4,999,598</u>	<u>629,171</u>	<u>141,732</u>	<u>—</u>	<u>5,770,501</u>
<b>December 31, 2015</b>					
Interest-bearing bank and other borrowings . . . . .	—	91,470	42,484	—	133,954
Trade payables . . . . .	53,838	—	—	—	53,838
Financial liabilities included in other payables, deposits received and accruals . . . . .	3,291,672	—	—	—	3,291,672
Due to related companies . . . . .	236,025	—	—	—	236,025
	<u>3,581,535</u>	<u>91,470</u>	<u>42,484</u>	<u>—</u>	<u>3,715,489</u>

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes, within net debt, interest-bearing bank and other borrowings, trade payables, other payables, deposits received and accruals and amounts due to related companies less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables . . . . .	53,838	50,638	201,114
Other payables, deposits received and accruals . . . . .	3,360,981	4,677,925	6,284,764
Interest-bearing bank and other borrowings . . . . .	131,795	766,348	415,315
Due to related companies . . . . .	236,025	352,194	511,348
Less: Cash and cash equivalents . . . . .	(213,625)	(175,953)	(304,736)
Net debt . . . . .	<u>3,569,014</u>	<u>5,671,152</u>	<u>7,107,805</u>
Equity attributable to owners of the parent . . . . .	<u>406,666</u>	<u>533,035</u>	<u>704,968</u>
Capital and net debt . . . . .	<u>3,975,680</u>	<u>6,204,187</u>	<u>7,812,773</u>
Gearing ratio . . . . .	<u>90%</u>	<u>91%</u>	<u>91%</u>

#### 41. CONTINGENCIES

As at December 31, 2015, 2016 and 2017, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group and the Company expect would materially adversely affect their financial position or results of operations.

#### 42. EVENTS AFTER THE REPORTING PERIOD

On 20 January 2018, it is resolved by the director of the Company to make two special dividends to PnR Holdings Limited in the amount of US\$45,370,311.20 and US\$17,700,000.00, respectively. The dividends have been paid by the Company on 24 January 2018 and 5 February 2018, respectively.

#### 43. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to December 31, 2017.

## APPENDIX II

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' Report set out in Appendix I to this prospectus.

### A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of December 31, 2017 as if it had taken place on December 31, 2017.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of December 31, 2017 or any future date. It is prepared based on our consolidated net tangible assets as of December 31, 2017 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Audited	Estimated Net Proceeds from the Global Offering	Unaudited Pro Forma Adjusted	Unaudited Pro Forma Adjusted Net Tangible Assets per Share	
	Consolidated Net Tangible Assets of Our Group as of December 31, 2017		Net Tangible Assets of our Group		
	RMB'000 (Note1)(Note5)		RMB'000 (Note2)	RMB'000	RMB (Note3)
Based on an Offer Price Of HK\$6.50 per Share . . . . .	666,509	1,118,290	1,784,799	1.43	1.76
Based on an Offer Price Of HK\$8.50 per Share . . . . .	666,509	1,473,946	2,140,455	1.71	2.10

- (1) The consolidated net tangible assets attributable to owners of the Company as of December 31, 2017 is extracted from the Accountants' Report, which is based on the audited consolidated equity attributable to owners of the Company as of December 31, 2017 of approximately RMB705.0 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$6.50 per Share or HK\$8.50 per Share, after deduction of the estimated underwriting fees and other estimated expenses payable by the Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.8139.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 225,263,600 Shares in issue immediately following the completion of the Global Offering and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8139.
- (5) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2017. In particular, the unaudited pro forma adjusted consolidated net tangible assets in the table above have not been adjusted to show the effect of the special dividend. On January 20, 2018, it is resolved by the director of the Company to make two special dividends to PnR Holdings Limited in the amount of US\$45,370,311.20 and US\$17,700,000.00, respectively. If the aforementioned two special dividends were taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per share would be reduced to RMB1.10 (equivalent to HK\$1.35), based on an Offer Price of HK\$6.50 per Offer Share, and RMB1.39 (equivalent to HK\$1.71), based on an Offer Price of HK\$8.50 per Offer Share.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

To the Directors of Huifu Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huifu Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at December 31, 2017, and related notes as set out on pages II-1 of the prospectus dated June 1, 2018 issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at December 31, 2017 as if the transaction had taken place at December 31, 2017. As part of this process, information about the Group's financial position, has been extracted by the Directors from the Group's financial statements for the period ended December 31, 2017, on which an accountants' report has been published.

**Directors' responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma 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:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

*Certified Public Accountants*  
Hong Kong  
June 1, 2018



Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on December 21, 2017 under the Cayman Companies Law. The Company's constitutional documents consist of the Memorandum and Articles of Association.

## 1. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of Association was conditionally adopted on May 20, 2018 with effect from the Listing Date. A summary of certain provisions of the Articles is set out below.

### (a) Objects and Powers

- (i) The Memorandum and Articles of Association provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (ii) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

### (b) Shares

#### (i) Classes of shares

The share capital of the Company consists of ordinary shares.

#### (ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Memorandum and Articles of Association relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its

duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(iii) Alteration of capital**

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum and Articles of Association; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

**(iv) Transfer of shares**

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognize any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided 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).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

**(v) Power of the Company to purchase its own shares**

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the SFC.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

**(vi) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Memorandum and Articles of Association relating to the ownership of shares in the Company by a subsidiary.

**(vii) Calls on shares and forfeiture of shares**

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or installment of a call on the day appointed for payment, the Board may, for so long as any part of the call or installment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or installment as is unpaid, together with any interest which may have 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 the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(c) Directors****(i) Appointment, retirement and removal**

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional

Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, subject to the requirement that the majority of the Board shall consist of PRC Nationals (the “PRC National Requirement”) one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may elect another person in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions and the PRC National Requirement. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) **Power to allot and issue shares and warrants**

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles of Association and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Memorandum Articles of Association and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Memorandum Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

**(iii) Power to dispose of the assets of the Company or any of its subsidiaries**

While there are no specific provisions in the Memorandum Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Memorandum Articles of Association or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

**(iv) Borrowing powers**

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**(v) Remuneration**

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either

equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. 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.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

**(vi) Compensation or payments for loss of office**

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

**(vii) 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 of the 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.

**(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries**

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) 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;

- (bb) 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 his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) 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 his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) 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 or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates 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 his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

**(d) Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(e) Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**(f) Meetings of member**

**(i) Special and ordinary resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly

authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(ii) Voting rights and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that 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.

**(iii) Annual general meetings**

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Memorandum Articles of Association. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

**(iv) Notices of meetings and business to be conducted**

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(v) **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, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation,

either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(g) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Memorandum and Articles of Association), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(h) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. 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.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(i) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.



**(j) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Memorandum and Articles of Association concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(k) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(l) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

### 3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on December 21, 2017 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### (a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

#### (b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as canceled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either canceled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) **Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) **Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands (as amended), the Company may obtain an undertaking from the Financial Secretary that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The Company has obtained an undertaking for a period of 20 years from 12 March 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) **Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) **Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) **Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands.

(o) **Register of Directors and officers**

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) **Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the

commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(q) Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.



**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation**

Our Company was incorporated in the Cayman Islands on December 21, 2017 as an exempted company with limited liability. Our registered office address is at the offices of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III to this prospectus.

Our registered place of business in Hong Kong is at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. On February 28, 2018, our Company was registered in Hong Kong under Part 16 of the Companies Ordinance as a registered non-Hong Kong company under its names, i.e., "Huifu Limited" in English and "汇付天下有限公司" in Chinese. We applied to the Registrar of Companies and the Registrar of Companies has approved "Huifu Payment Limited" as our business name under which we will carry on business in Hong Kong. Mr. JIN Yuan and Ms. SO Shuk Yi Betty have been appointed as the authorized representatives of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

As at the date of this prospectus, our Company's head office was located at Block C5 Putian Industrial Park Phase II, No.700 Yishan Road, Xuhui District, Shanghai, the PRC.

**2. Changes in Share Capital**

On December 21, 2017, our Company was incorporated with an authorized share capital of HK\$380,000 divided into 3,800,000,000 shares of a par value of HK\$0.0001 each.

The following changes in the share capital of our Company took place during the two years immediately preceding the date of this prospectus:

- (a) On December 21, 2017, our Company incorporated in the Cayman Island as an exempted company and wholly-owned subsidiary of PnR Holdings. Upon the incorporation, our Company issued one ordinary share with a par value of HK\$0.0001 to Vistra (Cayman) Limited in exchange for HK\$0.0001, and Vistra (Cayman) Limited subsequently transferred the share to PnR Holdings on the same date at the same price;
- (b) On December 25, 2017, our Company issued an additional one ordinary share with a par value of HK\$0.0001 to PnR Holdings in exchange of its 100% equity interest of PnR Network. As a result, PnR Network became the wholly-owned subsidiary of our Company; and
- (c) On January 29, 2018, our Company issued 1,026,199,359 ordinary shares with a par value of HK\$0.0001 each to PnR Holdings for a consideration of US\$4,500,000. As of the Latest Practicable Date, our Company had an authorized share capital of HK\$380,000 divided into 3,800,000,000 shares of a par value of HK\$0.0001 each.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

### 3. Changes in the Share Capital of our Subsidiaries and the Operating Entities

A summary of the corporate information and the particulars of our subsidiaries and the Operating Entities are set out in Note 1 to the Accountants' Report as set out in Appendix I to this prospectus.

The following sets out the changes in the share capital of our subsidiaries and the Operating Entities during the two years immediately preceding the date of this prospectus:

#### *(a) PnR JH*

- (1) On April 27, 2016, PnR JH was established by PnR Data with a registered capital of RMB60 million. Upon its incorporation, PnR JH was held as to 51% shares by PnR Data. The remaining shares are held by Huifu FinTech as to 19%, Nanjing Guchen Software Technology Service Center (Limited Partnership) as to 3.75%, Mr. ZHOU Jun as to 5%, Mr. WANG Xiuhong as to 5% and Mr. QIU Sheng as to 16.25%. Please refer to "History and Reorganization" for further details of our relationship with such five entities or individuals; and
- (2) On November 30, 2017, PnR Data transferred its 51% equity interests held in PnR JH to PnR Network for a consideration of RMB6.94 million, which was determined by reference to PnR JH's net asset value. After the transfer, PnR Network held as to 51% shares of PnR JH;
- (3) Pursuant to the written resolution passed at the shareholders' meeting of PnR JH on May 4, 2018, the shareholders of PnR JH resolved to contribute a total cash of RMB10 million to subscribe for an additional registered capital of RMB1.5 million of PnR JH on pro-rata basis.

#### *(b) Yifu Cloud*

- (1) On October 19, 2017, Yifu Cloud was established by PnR Data with a registered capital of RMB5 million; and
- (2) On November 30, 2017, PnR Data transferred its 100% shares in Yifu Cloud to PnR Network at the consideration of RMB1. After the transfer, PnR Network held 100% shares of Yifu Cloud;

#### *(c) Huihan Commercial Factoring*

- (1) On December 20, 2017, Shanghai Yisou entered into an equity transfer agreement with PnR Network, pursuant to which Shanghai Yisou agreed to transfer its 100% equity interests in Huihan Commercial Factoring and relevant obligation of equity contribution to PnR Network. The change of registration with the relevant administration for industry and commerce was completed on April 24, 2018.

#### *(d) PnR Data*

- (1) As of May 2, 2018, China PnR completed contribution of an additional RMB100 million by cash to PnR Data and completed change in industrial and business registration. Upon completion of the cash contribution, the registered capital of PnR Data was increased to RMB200 million.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries and the Operating Entities of our Company within the two years immediately preceding the date of this prospectus.

#### 4. Resolutions of the Shareholders of Our Company dated May 20, 2018

On May 20, 2018, resolutions of the Company were passed by the Shareholders that, among other things, conditional upon the satisfaction (or, if applicable, waiver) of the conditions set out in “Structure of the Global Offering—Conditions of the Global Offering” and pursuant to the terms set out therein:

- (a) the Company approved and adopted the Memorandum and Articles of Association with effect conditional and immediately upon the Listing;
- (b) the Global Offering and the grant of the Over-allotment Option were approved and any executive Director of our Company from time to time or (if applicable), any of his/their duly authorized attorney (the “**Authorized Signatory**”) were authorized to allot and issue the Shares pursuant to the Global Offering and the exercise of the Over-allotment Option;
- (c) the Listing was approved and any Authorized Signatory would be authorized to implement the Listing;
- (d) subject to the “lock-up” provisions under Rule 10.08 of the Listing Rules, a general unconditional mandate would be granted to the Directors to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for the Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers whether during or after the end of the Relevant Period (as defined below), provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to a (i) rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of the Shares in lieu of the whole or part of a dividend on the Shares, (iii) the exercise or vesting of shares granted under the Pre-IPO Share Option Scheme or (iv) a specific authority granted by the Shareholder(s) in general meeting, shall not exceed the aggregate of:
  - (A) 20% of the total number of Shares in issue immediately following the completion of the Global Offering; and
  - (B) the aggregate number of Shares repurchased by the Company (if any) under the general mandate to repurchase Shares referred to in paragraph below,

such mandate to remain in effect during the period from the passing of the resolution until the earliest of (i) the conclusion of the next annual general meeting of the Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions, (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association or any applicable laws to be held, and (iii) the date on which the mandate is varied or revoked by an ordinary resolution of the Shareholder(s) in general meeting (the “**Relevant Period**”); and
- (e) a general unconditional mandate would be granted to the Directors to exercise all the powers of the Company to repurchase the Shares on the Stock Exchange, or on any other

stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) not exceeding in aggregate 10% of the total number of Shares in issue immediately following the completion of the Global Offering but excluding (where applicable) any Shares which may be issued pursuant to the exercise of the Over-allotment Option of the Company in accordance with all applicable laws and the requirements of the Listing Rules, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (i) the conclusion of the next annual general meeting of the Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions, (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association or any applicable laws to be held, and (iii) the date on which the mandate is varied or revoked by an ordinary resolution of the Shareholder(s) in general meeting.

## **5. Repurchase of Our Own Securities**

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

### **(a) Provision of the Listing Rules**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

#### ***(i) Shareholders' Approval***

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on May 20, 2018, the Repurchase Mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued under the Over-allotment Option and any Shares to be allotted and issued upon the exercise of the options which has been granted under the Pre-IPO Share Option Scheme), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Memorandum and Articles of Association or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

***(ii) Source of Funds***

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase 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 from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Law.

***(iii) Trading Restrictions***

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

***(iv) Status of Repurchased Shares***

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman Companies Law.

***(v) Suspension of Repurchase***

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's

results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

***(vi) Reporting Requirements***

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

***(vii) Core Connected Persons***

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

**(b) Reasons for Repurchases**

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from the Shareholders to enable our Company 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 our Directors believe that such repurchases will benefit our Company and the Shareholders.

**(c) Funding of Repurchases**

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands. Our Directors may not repurchase the Shares 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. Subject to the foregoing, our Directors may make repurchases with profits of the Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorized by the Memorandum and Articles of Association and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Memorandum and Articles of Association and subject to Cayman Companies Law, out of capital.

However, our Directors 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 of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

**(d) General**

The exercise in full of the Repurchase Mandate, on the basis of 1,251,462,961 Shares in issue immediately following the completion of the Global Offering, but the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of the options which has been granted under the Pre-IPO Share Option Scheme, could accordingly result in up to approximately 125,146,296 Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company's next annual general meeting is required by the Memorandum and Articles of Association or any other applicable laws to be held; or
- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to our Company.

No core connected person (as defined in the Listing Rules) has notified us that he/she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, 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, depending on the level of increase of Shareholders' interest, 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, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed 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.

**6. Reorganization**

In order to streamline our corporate structure and to focus on our core businesses, we conducted the Reorganization. See "History and Reorganization" for further details.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (1) an equity transfer agreement and an equity transfer supplemental agreement dated November 30, 2017 and December 29, 2017, respectively, entered into between China PnR and Mr. ZHOU Ye, pursuant to which China PnR agreed to transfer its 60% of the equity interest in PnR Investment to Mr. ZHOU Ye for a consideration of RMB18,934,386.70;
- (2) an equity transfer agreement and an equity transfer supplemental agreement dated November 30, 2017 and December 29, 2017, respectively, entered into between China PnR and Ms. MU Haijie, pursuant to which China PnR agreed to transfer its 20% of the equity interest in PnR Investment to Ms. MU Haijie for a consideration of RMB6,311,462.23;
- (3) an equity transfer agreement and an equity transfer supplemental agreement dated November 30, 2017 and December 29, 2017, respectively, entered into between China PnR and Mr. LIU Gang, pursuant to which China PnR agreed to transfer its 20% of the equity interest in PnR Investment to Mr. LIU Gang for a consideration of RMB6,311,462.23;
- (4) an equity transfer agreement dated November 30, 2017 entered into between PnR Data and PnR Network, pursuant to which PnR Data agreed to transfer its 51% of the equity interest (equals to the equity contribution of RMB3.06 million) in PnR JH to PnR Network at the consideration of RMB6,944,759.35;
- (5) an equity transfer agreement dated November 30, 2017 entered into between PnR Data and PnR Network, pursuant to which PnR Data agreed to transfer its 100% of the equity interest (equals to the equity contribution of RMB5 million) in Yifu Cloud to PnR Network at the consideration of RMB1;
- (6) an equity transfer agreement dated November 30, 2017 entered into between PnR Data and PnR Investment, pursuant to which PnR Data agreed to transfer its 33.33% of the equity interest (equals to the actual equity contribution of RMB3.333 million) in Wuxi Citizen Card Investment Management Co., Ltd. (無錫市民卡投資管理有限公司) to PnR Investment at the consideration of RMB3.333 million;
- (7) an equity transfer agreement dated December 20, 2017 entered into between Shanghai Yisou and PnR Network, pursuant to which, Shanghai Yisou agreed to transfer its 100% of the equity interest (equals to RMB50 million) subscribed in Huihan Commercial Factoring and relevant obligation of equity contribution to PnR Network at nil consideration;
- (8) the restructuring framework agreement dated December 21, 2017 entered into between the Management Company, the Pre-IPO Investors, PnR Holdings, Mr. ZHOU Ye, Mr. LIU Gang, Ms. MU Haijie, and PnR (Cayman) Limited, details of which are set out in “History and Reorganization”;



- (9) an equity transfer agreement dated December 21, 2017 entered into between PnR Holdings and our Company, pursuant to which, our Company issued one share to PnR Holdings in exchange of its 100% of the equity interest (equals to the equity contribution of US\$74 million) in PnR Network;
- (10) a termination agreement in relation to the current control documents dated March 2, 2018 entered into among PnR Network, China PnR, Mr. ZHOU Ye, Mr. LIU Gang, Ms. MU Haijie, Mr. ZHANG Ge, Ms. XU Zhuomin and Ms. CHEN Yan (together with Mr. ZHOU Ye, Mr. LIU Gang, Ms. MU Haijie, Mr. ZHANG Ge and Ms. XU Zhuomin, the “**Registered Shareholders**”), pursuant to which the parties agreed to terminate the exclusive technology licensing and service agreement, the amended equity pledge agreement, the exclusive business cooperation agreement, the loan agreement, the amended option agreement and the powers of attorney, which were entered into among relevant parties on June 4, 2015;
- (11) a termination agreement in relation to the current control documents dated March 2, 2018 entered into among PnR Network, PnR Data and China PnR, pursuant to which the parties agreed to terminate the exclusive technology licensing and service agreement, the equity pledge agreement, the exclusive business cooperation agreement, the option agreement and the powers of attorney, which were entered into among relevant parties on June 4, 2015;
- (12) a loan agreement dated March 2, 2018 entered into among PnR Network and the Registered Shareholders, pursuant to which the Registered Shareholders confirmed that they owe to PnR Network a total loan of RMB100 million with a term from the date of the loan agreement till the time when PnR Network exercises its exclusive option right as stipulated under the exclusive option agreement dated March 2, 2018 (see item (13) below);
- (13) an exclusive option agreement dated March 2, 2018 entered into among PnR Network, the Registered Shareholders and China PnR, pursuant to which the Registered Shareholders irrevocably agreed to grant PnR Network an exclusive option right to acquire, or designate one or more persons to acquire, from the Registered Shareholders any or all of their equity interests then hold in China PnR, at once or in multiple times, at any time, for a total consideration of RMB100 million. If PnR Network exercises its option right to acquire part of equity interests held by the Registered Shareholders in China PnR, the purchase price shall be calculated in proportion to the equity interests being transferred. Furthermore, where the above purchase price is higher than the lowest price permitted by the PRC laws at the time of exercising such option, the lowest price permitted by the PRC laws, regulations and relevant rules shall be applied;
- (14) a power of attorney dated March 2, 2018 issued by Mr. ZHOU Ye, accepted by PnR Network and acknowledged by China PnR, pursuant to which Mr. ZHOU Ye agreed to, among other things, exclusively authorize PnR Network or its designated person(s) to exercise all of his rights as a shareholder of China PnR;
- (15) a power of attorney dated March 2, 2018 executed by Mr. LIU Gang, accepted by PnR Network and acknowledged by China PnR, pursuant to which Mr. LIU Gang agreed to, among other things, exclusively authorize PnR Network or its designated person(s) to exercise all of his rights as a shareholder of China PnR;

- (16) a power of attorney dated March 2, 2018 executed by Ms. MU Haijie, accepted by PnR Network and acknowledged by China PnR, pursuant to which Ms. MU Haijie agreed to, among other things, exclusively authorize PnR Network or its designated person(s) to exercise all of her rights as a shareholder of China PnR;
- (17) a power of attorney dated March 2, 2018 executed by Ms. XU Zhuomin, accepted by PnR Network and acknowledged by China PnR, pursuant to which Ms. XU Zhuomin agreed to, among other things, exclusively authorize PnR Network or its designated person(s) to exercise all of her rights as a shareholder of China PnR;
- (18) a power of attorney dated March 2, 2018 executed by Mr. ZHANG Ge, accepted by PnR Network and acknowledged by China PnR, pursuant to which Mr. ZHANG Ge agreed to, among other things, exclusively authorize PnR Network or its designated person(s) to exercise all of his rights as a shareholder of China PnR;
- (19) a power of attorney dated March 2, 2018 executed by Ms. CHEN Yan, accepted by PnR Network and acknowledged by China PnR, pursuant to which Ms. CHEN Yan agreed to, among other things, exclusively authorize PnR Network or its designated person(s) to exercise all of her rights as a shareholder of China PnR;
- (20) an equity pledge agreement dated March 2, 2018 entered into among PnR Network, Mr. ZHOU Ye and China PnR, pursuant to which Mr. ZHOU Ye agreed to, among other things, pledge all of his existing and future equity interests in China PnR to PnR Network;
- (21) an equity pledge agreement dated March 2, 2018 entered into among PnR Network, Mr. LIU Gang and China PnR, pursuant to which Mr. LIU Gang agreed to, among other things, pledge all of his existing and future equity interests in China PnR to PnR Network;
- (22) an equity pledge agreement dated March 2, 2018 entered into among PnR Network, Ms. MU Haijie and China PnR, pursuant to which Ms. MU Haijie agreed to, among other things, pledge all of her existing and future equity interests in China PnR to PnR Network;
- (23) an equity pledge agreement dated March 2, 2018 entered into among PnR Network, Ms. XU Zhuomin and China PnR, pursuant to which Ms. XU Zhuomin agreed to, among other things, pledge all of her existing and future equity interests in China PnR to PnR Network;
- (24) an equity pledge agreement dated March 2, 2018 entered into among PnR Network, Mr. ZHANG Ge and China PnR, pursuant to which Mr. ZHANG Ge agreed to, among other things, pledge all of his existing and future equity interests in China PnR to PnR Network;
- (25) an equity pledge agreement dated March 2, 2018 entered into among PnR Network, Ms. CHEN Yan and China PnR, pursuant to which Ms. CHEN Yan agreed to, among other things, pledge all of her existing and future equity interests in China PnR to PnR Network;
- (26) an exclusive business cooperation agreement dated March 2, 2018 entered into between PnR Network and China PnR, pursuant to which China PnR agreed to engage PnR Network as the exclusive service provider to provide China PnR with technical support, consultation service and other services in return for service fees;

- (27) a letter of agreement dated March 2, 2018 issued by Ms. TONG Shanlin (童珊琳), being the spouse of Mr. ZHOU Ye, accepted and acknowledged by Mr. ZHOU Ye, PnR Network and China PnR, pursuant to which Ms. TONG Shanlin, among other things, unconditionally and irrevocably waived any right or benefits which may be granted to her in accordance with any applicable laws on existing and future equity interests held by Mr. ZHOU Ye in China PnR and the underlying assets and confirmed that she will not have any claim on such equity interests and assets and that she had not and did not intend to participate in the operation and management or other voting matters of China PnR;
- (28) a letter of agreement dated March 2, 2018 issued by Ms. ZHAO Dongqing (趙冬青), being the spouse of Mr. LIU Gang, accepted and acknowledged by Mr. LIU Gang, PnR Network and China PnR, pursuant to which Ms. ZHAO Dongqing, among other things, unconditionally and irrevocably waived any right or benefits which may be granted to her in accordance with any applicable laws on existing and future equity interests held by Mr. LIU Gang in China PnR and the underlying assets and confirmed that she will not have any claim on such equity interests and assets and that she had not and did not intend to participate in the operation and management or other voting matters of China PnR;
- (29) a letter of agreement dated March 2, 2018 issued by Mr. QIAN Anke (錢安柯), being the spouse of Ms. MU Haijie, accepted and acknowledged by Ms. MU Haijie, PnR Network and China PnR, pursuant to which Mr. QIAN Anke, among other things, unconditionally and irrevocably waived any right or benefits which may be granted to him in accordance with any applicable laws on existing and future equity interests held by Ms. MU Haijie in China PnR and the underlying assets and confirmed that he will not have any claim on such equity interests and assets and that he had not and did not intend to participate in the operation and management or other voting matters of China PnR;
- (30) a letter of agreement dated March 2, 2018 issued by Mr. JIANG Minhao (蔣敏浩), being the spouse of Ms. XU Zhuomin, accepted and acknowledged by Ms. XU Zhuomin, PnR Network and China PnR, pursuant to which Mr. JIANG Minhao, among other things, unconditionally and irrevocably waived any right or benefits which may be granted to him in accordance with any applicable laws on existing and future equity interests held by Ms. XU Zhuomin in China PnR and the underlying assets and confirmed that he will not have any claim on such equity interests and assets and that he had not and did not intend to participate in the operation and management or other voting matters of China PnR;
- (31) a letter of agreement dated March 2, 2018 issued by Ms. JI Yingqiu (季穎秋), being the spouse of Mr. ZHANG Ge, accepted and acknowledged by Mr. ZHANG Ge, PnR Network and China PnR, pursuant to which Ms. JI Yingqiu, among other things, unconditionally and irrevocably waived any right or benefits which may be granted to her in accordance with any applicable laws on existing and future equity interests held by Mr. ZHANG Ge in China PnR and the underlying assets and confirmed that she will not have any claim on such equity interests and assets and that she had not and did not intend to participate in the operation and management or other voting matters of China PnR;
- (32) a letter of agreement dated March 2, 2018 issued by Mr. Bai Jing (柏京), being the spouse of Ms. Chen Yan, accepted and acknowledged by Ms. Chen Yan, PnR Network







and China PnR, pursuant to which Mr. Bai Jing, among other things, unconditionally and irrevocably waived any right or benefits which may be granted to him in accordance with any applicable laws on existing and future equity interests held by Ms. Chen Yan in China PnR and the underlying assets and confirmed that he will not have any claim on such equity interests and assets and that he had not and did not intend to participate in the operation and management or other voting matters of China PnR;

- (33) the Non-competition Undertaking dated May 20, 2018 issued by PnR (Cayman) and Paytech Holdings, details of which are set out in “History and Reorganization—Relationship between the Excluded Group and Our Group—Non-Competition Undertaking”;
- (34) The cornerstone investment agreement dated May 29, 2018 entered into among our Company, Lianyin Venture Capital, CLSA Capital Markets Limited, CLSA Limited, J.P. Morgan Securities (Far East) Limited, J.P. Morgan Securities (Asia Pacific) Limited, J.P. Morgan Securities plc and Haitong International Securities Company Limited, pursuant to which Lianyin Venture Capital agreed to subscribe for our Shares in the amount of HK dollars equivalent to RMB80,000,000, details of which are set out in “Cornerstone Investor”; and
- (35) The Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights

### (a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks in the PRC which we consider to be or may be material to our business:

No.	Trademark	Registered Owner	Class	Registered Number	Expiry Date
1		China PnR <sup>(1)</sup>	9	20873906	September 27, 2027
2		China PnR <sup>(1)</sup>	16	20874417	September 27, 2027
3		China PnR <sup>(1)</sup>	35	20874465	September 27, 2027
4		China PnR <sup>(1)</sup>	36	20874744	September 27, 2027
5		China PnR <sup>(1)</sup>	38	20874723	September 27, 2027
6		China PnR <sup>(1)</sup>	41	20875045	September 27, 2027
7	汇付天下	China PnR <sup>(1)</sup>	9	17034541	July 27, 2026
8	汇付天下	China PnR <sup>(1)</sup>	16	17034299	July 27, 2026
9	汇付天下	China PnR <sup>(1)</sup>	35	17034163	July 13, 2027
10	汇付天下	China PnR <sup>(1)</sup>	36	17034048	July 27, 2026

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No.	Trademark	Registered Owner	Class	Registered Number	Expiry Date
11		China PnR <sup>(1)</sup>	38	17033969	July 27, 2026
12		China PnR <sup>(1)</sup>	41	17033867	September 13, 2026
13		China PnR <sup>(1)</sup>	42	17034013	July 27, 2026

Note:

(1) China PnR is in the process of transferring the trademarks to PnR Network, which is subject to the change of registration with the trademark authority.

As at the Latest Practicable Date, we had applied for the registration of the following trademarks:

No.	Trademark	Place	Applicant	Class	Application Number	Application Date
1		Hong Kong	Our Company	9, 16, 35, 36, 38, 41 and 42	304417678	January 31, 2018
2	 Huifu Payment	Hong Kong	Our Company	9, 16, 35, 36, 38, 41, 42	304455036	March 9, 2018
3	 Huifu	Hong Kong	Our Company	9, 16, 35, 36, 38, 41, 42	304463947	March 19, 2018
4	 Huifu	Hong Kong	Our Company	9, 16, 35, 36, 38, 41, 42	304463956	March 19, 2018
5	 Huifu Payment	Hong Kong	Our Company	9, 16, 35, 36, 38, 41, 42	304463965	March 19, 2018

**(b) Copyrights**

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material to our business.

No.	Copyright	Version	Registration Number	Registration Date
1	China PnR Credit Payment Software (匯付天下信用支付軟件)	V2.0	2011SR069900	September 27, 2011
2	China PnR Application Software for Trusteeship Account Management System (匯付天下金融託管賬戶系統應用軟件)	V1.0	2016SR316181	November 2, 2016
3	China PnR Credit Payment Software 2.0 (匯付天下第二代信用支付軟件)	V2.0	2016SR341587	November 26, 2016
4	PnR Data Tian Tian Ying Software (Tian Tian Ying) (匯付數據天天盈軟件, 簡稱: 天天盈)	V1.0	2011SR069895	September 27, 2011
5	PnR Data Money Management System for Distribution Chain 3.0 (匯付數據面向分銷鏈錢管家三代軟件)	V1.0	2013SR133828	November 27, 2013
6	PnR Data Tian Tian Ying Mobile Client Software (匯付數據天天盈移動客戶端軟件)	V1.0	2013SR134261	November 27, 2013

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## STATUTORY AND GENERAL INFORMATION

No.	Copyright	Version	Registration Number	Registration Date
7	PnR Data Acquiring Software for Business (匯付數據面向商戶的收單用戶端軟件)	V1.0	2014SR117736	August 11, 2014
8	PnR Data Software of Billing Management System (匯付數據賬管家系統服務軟件)	V1.0	2016SR259229	September 13, 2016
9	PnR Data Application Software for Tian Tian Ying Fund Sale System (匯付數據天天盈基金代銷系統應用軟件)	V1.6.0	2016SR288128	October 11, 2016
10	PnR Data Credit Management Software (匯付數據信用管理軟件)	V2.0	2016SR290871	October 13, 2016
11	PnR Data Software for Remittance Management System (匯付數據匯管家系統服務軟件)	V1.0	2017SR537635	September 22, 2017
12	PnR Data Application Software for Voice and Video Identity Verification (匯付數據身份視頻語音驗證應用軟件)	V1.0	2017SR055297	February 24, 2017
13	PnR Data Fake Signature Recognition Software (匯付數據假簽名識別軟件)	V1.0	2017SR054973	February 24, 2017
14	PnR Data ID Image Recognition Software (匯付數據身份證圖像識別軟件)	V1.0	2017SR055020	February 24, 2017
15	PnR Data Cross-border Payment Software (匯付數據跨境支付軟件)	V1.0	2017SR011321	January 12, 2017
16	China PnR ET360 Software (匯付天下 ET360 軟件)	V1.0	2015SR209310	October 29, 2015
17	China PnR PNR Payment Windows Software (匯付天下 PnR 支付窗軟件)	V2.0	2015SR187622	September 25, 2015
18	China PnR Telephone Payment Software (匯付天下電話支付軟件)	V2.0	2015SR187609	September 25, 2015
19	China PnR Money Management Software 3.0 (匯付天下錢管家三代軟件)	V1.0	2015SR187614	September 25, 2015

**(c) Patents**

As at the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to our business:

No.	Patent	Category	Patentee	Place of Registration	Patent Number	Application Date
1	Mobile POS accessory, mobile POS system	Utility model	China PnR	PRC	ZL 201220442158.0	August 31, 2012
2	POS terminal	Design	China PnR	PRC	ZL 201230418208.7	August 31, 2012
3	A type of payment control method and system based on credit data (一種基於信用數據的支付控制方法和系統)	Invention patent	China PnR	PRC	ZL 201210433547.1	November 2, 2012

**3. Domain Names**

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registered Owner	Expiry Date
1.	chinapnr.com	PnR Data	May 10, 2020
2.	huifu.com	PnR Data	May 15, 2019
3.	ttyfund.com	China PnR	October 28, 2018
4.	cloudpnr.com	PnR Data	July 17, 2018
5.	pnrdata.com	China PnR	October 30, 2018
6.	pnr-pay.cn	PnR Data	September 18, 2019
7.	paysvr.com	Yifu Cloud	September 25, 2018

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

**C. FURTHER INFORMATION ABOUT OUR DIRECTORS****1. Particulars of Directors' Service Contracts and Appointment Letters****(a) Executive Directors**

Each of our executive Directors have entered into a service contract with us pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever ends earlier). Either party has the right to give not less than three months' written notice to terminate the agreement. Details of the Company's remuneration policy is described in "Directors and Senior Management—Remuneration and Compensation of Directors and Senior Management."

**(b) Non-executive Directors and independent non-executive Directors**

Each of the non-executive Directors has entered into an appointment letter with our Company on May 20, 2018. The initial term for their appointment letters shall commence from the date of their appointments and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date, whichever ends earlier, (subject always to re-election as and when required under the Memorandum and Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with our Company on May 20, 2018. The initial term for their appointment letters shall be three years from the date of this prospectus or until the third annual general meeting of the Company since the Listing Date, whichever ends earlier, (subject always to re-election as and when required under the Memorandum and Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

**2. Remuneration of Directors**

- (a) Save as disclosed above, none of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).
- (b) During the three year ended December 31, 2015, 2016 and 2017, the aggregate amount of salaries, allowances, benefits in kind, performance-related bonuses, share-based payments, pensions, and other social insurance benefits we paid to our Directors were approximately RMB2.9 million, RMB2.7 million and RMB8.5 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in Appendix I to this prospectus.
- (c) Under the arrangements currently in force, the aggregate amount of remuneration payable by our Group to our Directors for the financial year ending December 31, 2018 is expected to be approximately RMB4.4 million (excluding discretionary bonus and any options granted pursuant to the Pre-IPO Share Option Scheme).
- (d) No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. During the Track Record Period, no compensation was paid to, or has been received by, our Directors, former Directors or the five highest paid individuals for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.
- (e) Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.



### 3. Disclosure of Interests

#### (a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the Global Offering

Immediately following completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and assuming that the options granted under the Pre-IPO Share Option Scheme are not exercised), the interests or short positions of our Directors and chief executives in the Shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she 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 recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

##### (i) Interest in Shares

Name of Director or chief executive	Nature of interest	Number Shares held following the completion of the Global Offering	Approximate percentage of interest in our Company following the completion of the Global Offering (assuming the Over-allotment Option is not exercised)
Mr. ZHOU Ye <sup>(1)</sup>	Interest in controlled corporations	142,200,000	11.36%
Mr. ZHOU Joe <sup>(2)</sup>	Interest in controlled corporations	128,077,180	10.23%

*Notes:*

- Upon completion of the Global Offering, Management Company will directly hold 142,199,998 Shares and indirectly hold 2 Shares (through PnR Holdings, its wholly owned subsidiary) (all of which were Ordinary Shares) in our Company. Management Company is owned as to 60% by Mr. ZHOU Ye. Therefore, Mr. ZHOU is deemed to be interested in the 142,200,000 Shares held by ChinaPnR Management Ltd for purpose of Part XV of the SFO.
- As of the Latest Practicable Date, Keytone Ventures, L.P. was directly controlled by Keytone Capital Partners, L.P. as a general partner, which was in turn controlled by Keytone Investment Group, Ltd. as a general partner. Keytone Ventures II, L.P. was directly controlled by Keytone Capital Partners II, L.P. as a general partner, which was in turn controlled by Keytone Investment Group II, Ltd. as a general partner. Keytone Investment Group, Ltd. and Keytone Investment Group II, Ltd. were wholly owned by Mr. ZHOU Joe. Therefore, Mr. ZHOU is deemed to be interested in the 128,077,180 Shares collectively and directly held by Keytone Ventures, L.P. and Keytone Capital Partners II, L.P. for purpose of Part XV of the SFO.

##### (ii) Interest in associated corporations

Name of Director or chief executive	Nature of interest	Associated corporations	Number of shares held as of the Latest Practicable Date	Percentage of shareholding in the associated corporation
Mr. ZHOU Ye	Beneficial Owner	Management Company	30,000	60%
	Beneficial Owner	China PnR	60,060,000	60%
Ms. MU Haijie	Beneficial Owner	Management Company	10,000	20%
	Beneficial Owner	China PnR	10,010,000	10%

**(b) Interests and short positions disclosable under Divisions 2 and 3 of Part XV of the SFO**

For information on the persons who will, immediately following the completion of the Global Offering and without taking account of any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, please refer to “Substantial Shareholders.”

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such Capital.

**4. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of the Directors or any experts named in the paragraph headed “E. Other Information—4. Consents of Experts” in this section below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors or any experts named in the paragraph headed “E. Other Information—4. Consents of Experts” in this section below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (c) none of our Directors or any of experts named in the paragraph headed “E. Other Information—4. Consents of Experts” in this section below has any existing or proposed service contracts 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));
- (d) taking no account of any Shares which may be taken up under the Global Offering and allotted and issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

- (e) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company 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 therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates or our Shareholders who are interested in more than 5% of the share capital of our Group has any interests in the five largest customers or the five largest suppliers of our Group.

## D. PRE-IPO SHARE OPTION SCHEME

### 1. Summary

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme of the Company as approved by the Board on January 20, 2018 to be effective immediately before the completion of the Global Offering (the “**Adoption Date**”), which was established for the purpose of replacing the pre-IPO share option schemes of PnR Holdings as approved by the board of directors of PnR Holdings on September 16, 2011, December 12, 2017 and January 20, 2018, respectively, and taking effect from September 16, 2011, December 18, 2017 and January 20, 2018, respectively, due to the Group’s Reorganization. See “History and Reorganization—Our Reorganization” for further details. The terms of the Pre-IPO Share Option Scheme are exactly the same as those in PnR Holdings’ pre-IPO share option schemes.

The terms of the Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for new Shares once we have become a listed issuer.

#### *(a) Purpose*

The Pre-IPO Share Option Scheme is established as the replacement of the share option schemes of PnR Holdings, the purpose of which are to provide incentives and rewards to the Grantee for their contribution, and to align the corporate objectives and interests between the Group and the Grantee.

#### *(b) Who may join*

Those eligible to participate in the Pre-IPO Share Option Scheme (the “**Grantee**”) include any individual, form of body corporate, unincorporated association, firm, partnership, joint venture, consortium, organization or trust (in each case whether or not having a separate legal personality) who or which is granted a right to subscribe for Shares pursuant to the Pre-IPO Share Option Scheme hereunder by the Company pursuant to the decision of the Committee.

#### *(c) Maximum number of Shares*

The maximum number of Shares in respect of which Options may be granted under the Pre-IPO Share Option Scheme shall be 301,923,937 Shares, representing approximately 29.42% of the

aggregate of the Shares in issue on the Adoption Date, and approximately 24.13% of the issued share capital of the Company immediately upon the completion of the Global Offering but excluding any Shares which may be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme.

The maximum number of Shares subject to the Pre-IPO Share Option Scheme will be adjusted, in such manner as an independent financial adviser or the auditors for the time being of the Company (the “**Auditors**”) (acting as experts and not as arbitrators) shall confirm to the Directors in writing in the terms set out in (m) below, in the event of any alteration in the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation, sub-division or reduction of the share capital of the Company or otherwise howsoever.

***(d) Term of the Pre-IPO Share Option Scheme***

Subject to the termination event as set out in (o) below, the Pre-IPO Share Option Scheme shall be valid and effective for the period commencing on the Adoption Date and ending on the earlier of (i) the tenth anniversary of the Adoption Date; and (ii) the latest practicable date of this prospectus, after which period no further Options will be granted, but the provisions of the Pre-IPO Share Option Scheme shall in all other respects remain in full force and effect and the Grantees may exercise the Options in accordance with the terms upon which the Options are granted.

***(e) Administration and Authorization***

The Pre-IPO Share Option Scheme is administered by the committee established by the management of the Company for the purpose of stipulation, administration and implementation of the Pre-IPO Share Option Scheme (the “**Committee**”) and the decision of the Committee shall be final and binding on all parties. The Committee shall have the right:

- (i) to interpret and construe the provisions of the Pre-IPO Share Option Scheme,
- (ii) to determine the persons who will be awarded Options under the Pre-IPO Share Option Scheme, and the number of Options awarded thereto,
- (iii) to make such appropriate and equitable adjustments to the terms of Options granted under the Pre-IPO Share Option Scheme as it deems necessary,
- (iv) amend, add to and/or delete any of the terms of the Pre-IPO Share Option Scheme (the amendment to the Exercise Price and the Vesting Schedule shall be subject to the approval of the Board), provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration, except with the consent or sanction of such majority of the Grantees as would be required of the shareholders of the Company under the memorandum and/or articles of association for the time being of the Company for a variation of the rights attached to the Shares, and
- (v) to make such other decisions or determinations as the Committee shall deem appropriate in the administration of the Pre-IPO Share Option Scheme.

***(f) Offer and Grant of Options***

On and subject to the terms of the Pre-IPO Share Option Scheme, the Committee shall be entitled at any time during the term of the Pre-IPO Share Option Scheme to make an offer to any

Grantee as the Committee may in its absolute discretion select to take up Options in respect of such number of Shares as the Committee may determine at the Subscription Price. Options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the Committee may determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO Share Option Scheme.

An offer shall be made to a Grantee by offer letter (the “**Offer Letter**”) in such form as the Committee may from time to time determine requiring the Grantee to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Pre-IPO Share Option Scheme and shall remain open for acceptance by the Grantee to whom an offer is made until 17:00 on the 15th business day following the offer date provided that no such offer shall be open for acceptance after the expiry of the term of the Pre-IPO Share Option Scheme or after the Pre-IPO Share Option Scheme has been terminated. No consideration shall be paid for granting and acceptance of the Options.

An offer shall be deemed to have been accepted and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect (with retrospective effect from the offer date) when the duplicate Offer Letter comprising acceptance of the offer duly signed by the Grantee with the number of Shares in respect of which the offer is accepted clearly stated therein is received by the Company.

Any offer may be accepted in respect of less than the number of Shares to which the offered Option relates.

***(g) Vesting Schedule***

The vesting schedule shall be determined by the Board from time to time and shall be set out in the Offer Letter.

There shall be no accelerated vesting of any Options except that with the prior approval of the Board of the Company vesting may be fully accelerated for a period of not more than one (1) year upon a change of control of the Company or the sale of all or substantially all of the assets of the Company.

***(h) Exercise Price***

The price per Share at which a Grantee may subscribe for Shares on the exercise of an Option (the “**Exercise Price**”) shall be determined by the Board from time to time and shall be set out in the Offer Letter.

***(i) Exercise Methods***

An Option may be exercised in whole or in part in the manner as set out below by the Grantee (or his or her personal representatives) giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. In the case of a Grantee who is a national or a resident of the PRC or of such other country or jurisdiction as the Committee shall determine from time to time and notify to the Grantees, the notice exercising the Option shall include an undertaking confirming that the funds representing the Exercise Price payable upon exercise of the Option were obtained in accordance with applicable laws or regulations.

Each notice of exercise of an Option must be accompanied by a remittance for the aggregate amount of the Exercise Price multiplied by the number of Shares in respect of which the notice is given. Within 30 days after receipt of the notice and remittance and, where appropriate, receipt of the Auditors' certificate pursuant to (m) below, the Company shall allot and issue or procure the allotment and issue of the relevant shares pursuant to the exercise of an Option (the "Option Shares") to the Grantee (or his or her personal representative) credited as fully paid and issue to the Grantee (or his or her personal representative) a share certificate in respect of the Option Shares so allotted. The Grantees, upon exercising the Options, shall execute an irrevocable proxy, appointing such person as designated by the Committee as his/her attorney/proxy with full power of substitution of the Grantees' rights with respect to the Option Shares owned or to be owned by such Grantees pursuant to the exercise.

If such undertaking is not included in the notice, the Option shall be deemed for all purposes to be a Redemption Option, which means the Grantee will receive the amount (if any) by which (i) the net proceeds of sale (e.g. after payment of, without limitation, stamp duty, commissions, brokerage and Stock Exchange transaction levy) of the Shares in respect of which the Option is exercised, exceeds (ii) the Exercise Price applicable to such Shares. Redemption Options shall be exercised on the following terms and conditions (and if any of such conditions shall not be fulfilled the exercise of the Redemption Option shall be void and of no effect):

- (a) It shall be a condition of the exercise of a Redemption Option that the relevant Shares shall be traded on the recognized stock exchange as the Board shall approve, and that at all times during the period from and including the exercise of the Redemption Option and the completion of the sale of the relevant Shares, dealings in the Shares on such exchange shall continue and shall not be suspended.
- (b) It shall be a further condition of the exercise of a Redemption Option that the net proceeds of sale of the relevant Shares shall exceed the Subscription Price of such Shares;
- (c) Upon the exercise of a Redemption Option, and subject to it becoming unconditional in all respects, the Company (1) shall approve, as soon as reasonably practicable, the Shares in respect of which the Redemption Option is exercised (adjusted, where appropriate), (2) shall arrange for the sale on the recognized stock exchange as the Shares shall be traded on, (3) shall allot and instruct the share registrar to issue the relevant Shares to the relevant purchaser(s) or subscriber(s), (4) shall receive the whole of the net proceeds of sale of the Shares for the Company's account, free of all liens or trusts, and (5) shall pay to the Grantee, subject to (p) below an amount equal to the Redemption Price in cash, by Company check or wire transfer at the Company's election. The Grantee shall provide the Company with such information in relation to the method of making payment as the Company may require, and the making of such payment in accordance with such information shall operate as a complete and absolute discharge of the Company's obligations to make payments in respect of the exercise of the Redemption Option. If so requested by the Company, a Grantee shall deliver a duly executed receipt of payment contemporaneously with the making of such payment.

In the event of exercise of an Option Share, the Company shall use all reasonable endeavors to procure that Shares to be allotted and issued upon exercise of any Options shall, upon the allotment and issue thereof (or as soon as practicable), become listed on the Stock Exchange upon which Shares already in issue are listed. Notwithstanding any provisions herein, if at the time a Grantee wishes to

exercise any Options, the exercise of such Options or the consequence of such exercise is not permitted by applicable laws or the Listing Rules, the Grantee shall not be entitled to exercise his Options until such exercise becomes permissible by the applicable laws and the Listing Rules.

***(j) Exercise Period***

Subject as hereinafter provided and subject to the terms and conditions upon which such Option was granted, particularly the option period set out in the Offer Letter, the Option shall be vested in accordance with the Vesting Schedule and, when vested in accordance with the Vesting Schedule, the Option may be exercised by the Grantee only after a Listing has occurred, provided that upon the approval of the Committee or in the following circumstances the Grantee shall exercise the Option even before the occurrence of a Listing:

- (a) in the event of the Grantee ceasing to be an Employee by reason of his/her death, disability, retirement through ill health, retrenchment or having reached the normal Group retirement age or for any other reason that the Committee considers valid, before exercising the Option in full, the Grantee (or in the case of his/her death or total disability, his/her personal representative) may exercise the Option in full or in part, as the Grantee (or his/her representative, if applicable) may determine;
- (b) if a general offer by way of takeover is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer having been approved by the holders of not less than nine-tenths in value of the Shares comprised in the offer and the offeror thereafter gives a notice to acquire the remaining Shares, the Grantee (or, where appropriate, his or her legal personal representative) shall be entitled to exercise the Option in full (to the extent not already exercised) within 30 days after the date of such notice by the offeror;
- (c) if a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a plan for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to the Grantee on the same date as it despatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the Grantee (or his or her personal representative, if applicable) may, until the expiry of the period commencing with such date and ending with the earlier of the date two months thereafter and the date on which such compromise or arrangement becomes legally effective, provided that the relevant Option is not subject to a term or condition precedent to it being exercisable which has not been fulfilled, exercise any of his or her Options (to the extent not already exercised) whether in full or in part, subject to such compromise or arrangement becoming legally effective. Upon such compromise or arrangement becoming legally effective, all Options shall lapse except insofar as previously exercised under the Pre-IPO Share Option Scheme (including pursuant to the right granted under the preceding sentence). The Company may require the Grantee (or his or her personal representative) to transfer or otherwise deal with the Option Shares issued in these circumstances so as to place the Grantee in the same position as nearly as would have been the case had such Option Shares been subject to such compromise or arrangement;

- (d) in the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to wind-up the Company voluntarily, the Company shall forthwith give notice thereof to the Grantee and the Grantee (or his or her legal personal representative, if applicable) may by notice in writing to the Company (such notice to be received by the Company not later than four (4) business days prior to the proposed shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Option Shares to the Grantee which falls to be issued on such exercise.

***(k) Rights attached to Options and Option Shares***

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any Options that have not been exercised. Subject to restrictions below, Option Shares will be subject to the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* with the fully paid Shares in issue as from the date of exercise of the Option and in particular will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the Option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of exercise of the Option, provided always that when the date of exercise of the Option falls on a date upon which the register of members of the Company is closed then the exercise of the Option shall become effective on the first business day on which the register of members of the Company is re-opened.

Notwithstanding anything to the contrary in the Pre-IPO Share Option Scheme, a Grantee shall not sell, transfer, otherwise dispose of, pledge, hypothecate or otherwise encumber (collectively, "**Alienate**") any Option Shares before the occurrence of a Listing or within twelve months following a Listing, except as provided for in (j)(c), (j)(d) above or to the offeror referred to in (j)(d) above or as otherwise approved by the Committee. Any Alienation of Option Shares in violation of the Pre-IPO Share Option Scheme shall be void. The Company shall not be required (i) to transfer on its books/registers any Option Shares which shall have been sold or transferred in violation of any of the provisions set out in the Pre-IPO Share Option Scheme or (ii) to treat as the owner of or rightsholder in respect of Option Shares or accord the right to vote or pay dividends to any Alienee to whom such Option Shares shall have been so Alienated. The Grantee hereby grants to the Company a security interest in the Option Shares for the purpose of ensuring that any Alienation in violation of the restrictions set out in the Pre-IPO Share Option Scheme does not occur. In furtherance of such security interest, the Company may, at its option, retain the certificate(s) evidencing the Option Shares, together with share transfers executed in blank by the Grantee, until such restrictions on Alienation terminate in accordance with this Plan. The Grantee hereby grants to any officer(s) of the Company the power of attorney to cause the Option Shares to be transferred on the books/registers of the Company in the event the Company and/or its assignees repurchase some or all of the Option Shares in accordance with the Plan.



***(l) Lapse and cancelation of Option***

An Option shall lapse or be canceled automatically (to the extent not already vested or exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of the periods referred to in *(j)(b)* or *(j)(d)* above;
- (c) subject to the plan of arrangement or plan for reconstruction or amalgamation becoming legally effective, the expiry of the period referred to in *(j)(c)* above;
- (d) the date on which the Grantee ceases to be an Employee by reason of his resignation or the termination of his or her employment on any ground (including without limitation to the termination due to the Grantee's willful misconduct, gross negligence, violation of internal regulations or applicable laws) other than those set out in *(j)(a)* above;
- (e) the date of the commencement of the winding-up of the Company;
- (f) the date on which the Grantee commits a breach of *(q) below*;
- (g) the date when the Grantee fails to meet any key performance index provided in the Vesting Schedule;
- (h) in the event of change of title and upon the confirmation by the Committee that the position the Grantee has been changed to is not entitled to the Options or is not entitled to maintain such Options under the former position (in such event, such Options not entitled under the new position shall be canceled); and
- (i) the date when the Committee determines that the Grantee materially breaches the confidentiality agreement, non-compete obligations or any other agreements or policies of the Company.

***(m) Effect of Reorganization of Capital Structure***

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, sub-division, or reduction of the share capital of the Company or otherwise howsoever in accordance with legal requirements, other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party or an issue of shares pursuant to, or in connection with, any share option plan, share appreciation rights plan or any arrangement for remunerating or incentivizing any employee, consultant or adviser to the Company or any subsidiary or in the event of any distribution of the Company's capital assets to its shareholders on a pro rata basis (whether in cash or in specie) other than dividends paid out of the net profits attributable to its shareholders for each financial year of the Company, such corresponding alterations (if any) shall be made to:

- (a) the number or nominal amount of Shares subject to the Option so far as unexercised;
- (b) the Exercise Price;

or any combination thereof, as an independent financial adviser or the Auditors shall confirm to the Directors in writing, either generally or as regard any particular Grantee, to have given a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled, but that no such adjustments be made to the extent that a share would

be issued at less than its nominal value. The capacity of the independent financial adviser or Auditors (as the case may be) is that of experts and not of arbitrators and their confirmation shall, in the absence of manifest error, be final and binding on the Company and the Grantees. The costs of the independent financial adviser or Auditors (as the case may be) shall be borne by the Company.

***(n) Right of Repurchase of Shares***

Notwithstanding any provision in the Pre-IPO Share Option Scheme to the contrary, the Option Shares issued by the Company before the occurrence of a Listing as a result of the exercise of an Option pursuant to paragraph 6 shall be subject to a right, but not an obligation, of repurchase by the Company and/or its assignee(s) (the “**Right of Repurchase**”), at the price (the “**Repurchase Price**”) equal to the fair market value of an Option Share on the date the Company exercises its Right of Repurchase, provided that if such Grantee breaches its covenants on the confidentiality and/or non-competition of the Company and other similar requirements under its employment agreement, confidentiality and non-competition agreements and/or other similar agreements or when the Grantee resigns or terminates its employment agreement with the Company, its subsidiary or operating entity, the Repurchase Price shall equal to the paid Subscription Price of the Option Shares. For the purposes hereof, the fair market value of an Option Share shall, in the absence of an established market for the Shares, be such price as may be agreed between the Board and the Grantee in question within (thirty) 30 days after the date on which the Company gives notice that it wishes to exercise the Right of Repurchase, failing which it shall be such price as shall be determined in good faith by the Board after giving due consideration to the Company’s earnings history, book value and prospects in the light of market conditions generally.

If the Company wishes to exercise its Right of Repurchase, it shall give notice thereof to the Grantee, and, upon determination of the Fair Market Value of the Option Shares in question, the Grantee shall immediately endorse and deliver to the Company the share certificate(s) representing the Option Shares being repurchased, and the Company shall then promptly pay the total Repurchase Price to the Grantee. If the Company exercises its Right of Repurchase, it may exercise its right with respect to all or part of the Option Shares.

***(o) Termination***

The Committee may at any time terminate the operation of the Pre-IPO Share Option Scheme, provided that no such termination shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such termination, and in such event no further Options will be offered but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect.

***(p) Taxes***

The grantee shall be solely liable to pay all taxes and other levies which may be assessed or assessable on any payments made by the Company hereunder and all payments required to be made hereunder by the Company shall be subject to the deduction or withholding of such amounts as the Company may reasonably determine is necessary or desirable by reason of any liability to tax or obligation to account for tax or loss of any relief from tax which may fall on the Company or any subsidiary in respect of, or by reason of such payment or the exercise of the relevant redemption Option, and the grantee agrees to indemnify and keep the Company (for itself and as trustee for its

subsidiaries) indemnified in respect of any such liability, obligation or loss and accepts that any claim in respect of such indemnity may be satisfied by set-off against any sums due from the Company or any subsidiary to such grantee from time to time.

*(q) Transferability of options*

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any Option.

*(r) Potential Dilution Effect*

If all the Options granted under the Pre-IPO Share Option Scheme are exercised, there would be a dilution effect of approximately 19.44% on the earnings per Share and the shareholdings of our Shareholders immediately following completion of the Listing (assuming the Over-allotment Option is not exercised).

## 2. Outstanding Options<sup>(1)</sup>

As of the Latest Practicable Date, Options to subscribe for an aggregate of 301,923,937 Shares, representing approximately 24.13% of the issued share capital of our Company upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme), or approximately 19.44% of the enlarged issued share capital of our Company upon full exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme on the completion of the Global Offering (assuming the Over-allotment Option is not exercised) have been granted by our Company to a total of three Directors, two members of the senior management of the Company, one director of our subsidiary who constitutes the connected person of our Group, one Grantee who is entitled to Options to subscribe for 8,000,000 Shares or more (the “**Significant Grantee**”) and 225 other Grantees (the “**Other Grantees**”) under the Pre-IPO Share Option Scheme. In particular, Options to subscribe for an aggregate of 193,475,885 Shares have been granted to the three Directors, two members of the senior management of the Company, one director of our subsidiary who constitutes the connected person of our Group and one Significant Grantee, and Options to subscribe for an aggregate of 108,448,052 Shares have been granted to the Other Grantees, representing approximately 15.46% and 8.67% of the issued share capital of our Company upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme), respectively, or approximately 12.46% and 6.98% of the enlarged issued share capital of our Company upon full exercise of all the outstanding Options granted under the Pre-IPO Share Option Scheme upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised), respectively.

<sup>(1)</sup> For illustration purpose and for the purpose of the implementation of the Pre-IPO Share Option Scheme, the terms and conditions of the Options to be granted to each Grantee under the Pre-IPO Share Option Scheme will mirror those granted under PnR Holdings’ pre-IPO share option schemes.

Details of the Options granted pursuant to the Pre-IPO Share Option Scheme to our Directors, members of the senior management of the Company, the connected person of our Group and the Significant Grantee as of the Latest Practicable Date are set out below:

Name of Grantee	Address	Relationship with the Company	Date of Grant	Number of Shares underlying the Options granted	Option Period	Exercise Price (US\$)	Approximate shareholding percentage in the total issued Shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme)
ZHOU Ye (周擘)	Room 301, No.16 Qiaoheng Yuan, Great Shanghai International Garden, Lane 1555, Caobao Road, Shanghai, China	Chairman of the Board, Executive Director and Chief Executive Officer	January 6, 2014	29,165,323	10 years from grant date	0.18	2.33%
			December 18, 2017	15,192,871		0.5458	1.21%
			January 20, 2018	40,739,455		0.7846	3.26%
			January 20, 2018	8,119,973		Offer Price	0.65%
				<b>Subtotal:</b> 93,217,622			7.45%
MU Haijie (穆海潔)	No. 625, Changle Road, Shanghai, China	Executive Director and President	January 6, 2014	7,063,481	10 years from grant date	0.18	0.56%
			December 18, 2017	6,844,211		0.5458	0.55%
			January 20, 2018	20,928,120		0.7846	1.67%
			January 20, 2018	3,501,592		Offer Price	0.28%
				<b>Subtotal:</b> 38,337,404			3.06%
JIN Yuan (金源)	Room 602, No. 21, Lane 2899, Hongmei Road, Shanghai, China	Executive Director, Chief Financial Officer and Joint Company Secretary	April 4, 2014	1,000,000	10 years from grant date	0.18	0.08%
			December 18, 2017	4,661,084		0.5458	0.37%
			January 20, 2018	7,328,915		0.7846	0.59%
			January 20, 2018	1,977,643		Offer Price	0.16%
				<b>Subtotal:</b> 14,967,642			1.20%
JIANG Jingyu (姜靖宇)	Room 2006, No. 211 Qinzhou Road, Shanghai, China	Vice President	March 25, 2014	400,000	10 years from grant date	0.18	0.03%
			December 18, 2017	3,173,154		0.5458	0.25%
			January 20, 2018	3,722,622		0.7846	0.30%
			January 20, 2018	988,822		Offer Price	0.08%
				<b>Subtotal:</b> 8,284,598			0.66%

Name of Grantee	Address	Relationship with the Company	Date of Grant	Number of Shares underlying the Options granted	Option Period	Exercise Price (US\$)	Approximate shareholding percentage in the total issued Shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme)
HUA Lei (花蕾)	Room 502, No. 10, Lane 1388, Xincun Road, Putuo District, Shanghai, China	Vice President	January 6, 2014	1,154,491	10 years from grant date	0.18	0.09%
			December 18, 2017	3,976,569		0.5458	0.32%
			January 20, 2018	4,711,444		0.7846	0.38%
			<b>Subtotal: 9,842,504</b>				
LIU Gang (劉鋼)	Room 602, No. 47, Lane 2328, Yishan Road, Shanghai, China	Director of PnR Data	January 6, 2014	5,732,455	10 years from grant date	0.18	0.46%
			December 18, 2017	2,959,853		0.5458	0.24%
			January 20, 2018	581,660		0.7846	0.05%
			January 20, 2018	581,660		Offer Price	0.05%
<b>Subtotal: 9,855,628</b>						0.79%	
XU Zhuomin (徐卓敏)	Room 701, No. 3., Lane 89, Dening Rd, Sijing County, Songjiang District Shanghai, China	Employee	January 6, 2014	4,250,394	10 years from grant date	0.18	0.34%
			December 18, 2017	7,484,244		0.5458	0.60%
			January 20, 2018	3,373,627		0.7846	0.27%
			January 20, 2018	3,862,222		Offer Price	0.31%
<b>Subtotal: 18,970,487</b>						1.52%	

The Options granted on January 6, March 25 and April 4, 2014 have a vesting period of five years: (a) ten percent (10%) of the Options shall become vested at the first (1st) anniversary of the vesting commencement date; (b) fifteen percent (15%) of Option shall become vested at the second (2nd) anniversary of the vesting commencement date; (c) twenty percent (20%) of the Options shall become vested at the third (3rd) anniversary of the vesting commencement date; (d) twenty-five percent (25%) of the Options shall become vested at the fourth (4th) anniversary of the vesting commencement date; (e) thirty percent (30%) of the Options shall become vested at the fifth (5th) anniversary of the vesting commencement date. The vesting commencement date of each Grantee shall be the first September 30 after their employments.

The Options granted on December 18, 2017 have a vesting period of four years vesting evenly in annual installments after the later date of December 31, 2015 or each Grantee's respective employment date.

The Options granted on January 20, 2018 with an exercise price of US\$0.7846 will be vested after the completion of the Listing, and part of which is subject to certain other conditions set out in the Offer Letter, while the Options granted on January 20, 2018 with an exercise price of the Offer Price have a vesting period of four years vesting evenly in annual installments after December 31, 2017.

As of the Latest Practicable Date, other than disclosed above, no Options were granted to any Directors, members of the senior management of the Company, the connected person of our Group or the Significant Grantee under the Pre-IPO Share Option Scheme.

Details of the Options granted pursuant to the Pre-IPO Share Option Scheme to Other Grantees, other than our Directors, members of the senior management of the Company, the connected person of our Group and the Significant Grantee are set out below:

<u>Date of Grant</u>	<u>Number of Shares underlying the Options granted</u>	<u>Option Period</u>	<u>Exercise Price (US\$)</u>	<u>Approximate shareholding percentage in the total issued Shares immediately after the completion of the Global Offering (assuming the Overallotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Scheme)</u>
January 6, 2014	46,505,741	10 years from grant date	0.18	3.71%
December 18, 2017	46,028,098	10 years from grant date	0.5458	3.68%
January 20, 2018	11,679,730	10 years from grant date	0.7846	0.93%
January 20, 2018	4,234,483	10 years from grant date	Offer Price	0.34%

Save and except as set out above, no other options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Scheme.

As at the Latest Practicable Date, none of the Options granted under the Pre-IPO Share Option Scheme has been exercised. No further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

## **E. OTHER INFORMATION**

### **1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

### **2. Litigation**

Save as disclosed in this prospectus and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

### 3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any Shares to be allotted and issued upon the exercise of the options which has been granted under the Pre-IPO Share Option Scheme). All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with the Joint Sponsors, pursuant to which our Company agreed to pay each Joint Sponsor a fee of US\$500,000 to act as a sponsor to our Company in the Global Offering.

### 4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and/or the references to their names included herein in the form and context in which they are respectively included.

<u>Name</u>	<u>Qualification</u>
CLSA Capital Markets Limited	Licenses of type 4 (advising on securities) and type 6 (advising on corporate finance)
J.P. Morgan Securities (Far East) Limited	Licenses of type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance)
Ernst & Young	Certified public accountants
Grandall Law Firm (Shanghai)	Qualified PRC Lawyers
Walkers	Cayman Islands attorneys-at-law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

As of the Latest Practicable Date, none of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

### 5. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

### 6. Bilingual Prospectus

The English language and Chinese language versions of this prospectus 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).

**7. Compliance Adviser**

Our Company have appointed Guotai Junan Capital Limited as its compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

**8. Preliminary Expenses**

The preliminary listing expenses of the Global Offering are estimated to be approximately RMB0.2 million and are payable by our Company.

**9. No Material Adverse Change**

The Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2017.

**10. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no Share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;
  - (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; and
  - (iii) 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.
- (b) Save as disclosed in this prospectus:
- (i) there are no founder, management or deferred Shares nor any debentures in our Company or any of our subsidiaries;
  - (ii) no Share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
  - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares in or debentures of our Company or any of our subsidiaries.
- (c) Save as disclosed in the paragraph headed “—B. Further Information about our Business—1. Summary of Material Contracts” in this section, none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, direct or indirect, in any assets which have been, within the two years immediately preceding the date of this prospectus, 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.
- (d) We do not have any promoter. 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 Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.



- (e) Save as disclosed in this prospectus, no equity or debt securities of any company within our Group is presently listed on any stock exchange or traded on any trading system nor is any listing or permission to deal being or proposed to be sought.
- (f) There has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months.
- (g) Our Company has no outstanding convertible debt securities or debentures.
- (h) There is no arrangement under which future dividends are waived or agreed to be waived.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of **WHITE, YELLOW and GREEN** Application Forms;
- (b) the written consents referred to under the paragraph headed “Statutory and General Information—E. Other Information—4. Consents of experts” in Appendix IV to this prospectus; and
- (c) copies of the material contracts referred to in the paragraph headed “Statutory and General Information—B. Further Information about Our Business—1. Summary of Material Contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at our office in Hong Kong at Clifford Chance at 27/F, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountant’s Report of our Group prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three financial years ended December 31, 2015, 2016 and 2017;
- (e) the PRC legal opinions issued by Grandall Law Firm (Shanghai), our PRC Legal Advisors, in respect of certain general corporate matters and property interests of our Group;
- (f) the letter of advice prepared by Walkers, our legal advisors as to Cayman Islands law, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;
- (g) the Cayman Companies Law;
- (h) the report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the summary of which is set forth in the section headed “Industry Overview” in this prospectus;
- (i) the written consents referred to under the paragraph headed “Statutory and General Information—E. Other Information—4. Consents of experts” in Appendix IV to this prospectus;
- (j) the material contracts referred to in “Statutory and General Information—B. Further Information about Our Business—1. Summary of material contracts” in Appendix IV to this prospectus;

- (k) the service contracts and the letters of appointment with our Directors referred to in “Statutory and General Information—C. Further Information about our Directors—1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this prospectus; and
- (l) the terms of the Pre-IPO Share Option Scheme and a list of Grantees under the Pre-IPO Share Option Scheme.



**Huifu Payment Limited**

—— 汇付天下有限公司 ——